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The Journal of SOCIAL, POLITICAL AND ECONOMIC STUDIES

Roger Pearson
General Editor
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Ramifications of the Nuclear Rocket

James H. Hughes
Englewood, Colorado

A space-based missile defense is imperative for the United States, and nuclear-fueled rockets can play a large role in this. Such a rocket will also serve several other purposes, including the further extension of space travel and the economic development of the moon, Mars and the asteroid best. The author describes the earlier work on a nuclear rocket and surveys the advantages of resuming that program now.

Key words: Nuclear rocket, missile defense, space-based missile defense, the space program; economic development of the moon, Mars and the asteroid belt; interplanetary space travel.

The use of nuclear energy for transportation in space will give a rocket greater range, speed, and endurance than a chemically propelled rocket. The development of the nuclear rocket will have ramifications on the deployment of a ballistic missile defense in space and on interplanetary space travel. Since the single greatest issue facing the United States today is its total lack of a ballistic missile defense – a question of survival as it has no defense against even a single long range ballistic missile - the development of a nuclear rocket is arguably and amply justified by providing the United States with a key component of a comprehensive ballistic missile defense.

The threat today to the United States from long range ballistic missiles cannot be exaggerated. North Korea, a nation of only about 22 million and desperately poor with people starving, can threaten the United States with mass destruction using long range ballistic missiles;[1] Iran is developing long range ballistic missiles capable of

[1] North Korea's August 31, 1998 test of a three stage ballistic missile surprised U.S. intelligence services and the military. It took weeks for the intelligence community to assess the test and realize North Korea had tested a three stage rocket. It was an ICBM capable of reaching the western United States. North Korea expects to test another ICBM later in 1999.

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attacking U.S. cities;[2] and China is expanding its development of long range ballistic missiles, developing new types of road mobile and submarine launched ballistic missiles with multiple nuclear warheads.[3] Russia is building a new road-mobile long range ballistic missile, the Topol-M, to replace older missiles with an "invincible" weapon against a ballistic missile defense.[4] And, in spite of the end of the Cold War, Russia still possesses hundreds of long range ballistic missiles – ICBMs and SLBMs – that can destroy the main centers of the U.S. in half an hour.

The U.S. response to the threat posed by long range ballistic missiles must focus on building a defense in space. A ballistic missile defense in space can include miniature interceptors similar to the Brilliant Pebbles Space-Based Interceptor developed and tested in the

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[2] Iran is pushing ahead with a multibillion-dollar program to develop missiles capable of reaching American cities, according to Israeli Prime Minister Benjamin Netanyahu [*Washington Times*, October 1, 1998] The *Washington Times* also reported in September 1997 about Iran's efforts, in collaboration with China and Russia, to build the Shahab-3 and Shahab-4 missile systems with ranges of up to 1,240 miles. Mr. Netanyahu said the Shahab-5 and Shahab-6 would extend that range and have the capability 'to reach the Eastern seaboard" of the United States ... *The Shield*, November/December 1998, p. 8.

[3] A detailed description of China's long range ballistic missile program and supportive elements of its space program are found in "China Increases Its Missile Forces While Opposing U.S. Missile Defense," Richard D. Fisher, Jr., The Heritage Foundation Backgrounder No. 1268, April 7, 1999.

Fisher describes China's development of two new types of roadmobile ICBMs, the DF-31 and DF-41 (the U.S. does not have road-mobile ICBMs), and China's development of a submarine launched ballistic missiles, the JL-2. These new missile are expected to be MIRVed (carrying multiple nuclear warheads with independent targeting). The warheads may resemble the U.S. W-88 nuclear warhead, our most advanced warhead for the Trident submarine missile.

[4] Moscow, Feb. 24. [1999] - The leading designer of Russia's new intercontinental ballistic missile [ICBM] claimed in an interview published today that the Topol-M rocket has the ability to "effectively penetrate" the antimissile system "of any state."

The comments by Yuri Solomonov, general constructor at the Moscow Institute of Heat Technology, which built the new missile, made public what other Russia experts have previously asserted privately: that the missile has some still-secret design to overcome anti-ballistic missile defenses.

Solomonov said characteristics of the Topol-M include the ability to penetrate an anti-ballistic missile shield, a high degree of accuracy, the missile's ability to resist damage, and the "effectiveness" of the warhead itself. He suggested that the warhead has a self-targeting mechanism that kicks in just as the warhead is approaching its target. David Hoffman, "Russian Rocket Called Invincible," *Washington Post Foreign Service*, February 24, 1999.

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late 1980's and early 1990's, high energy chemical Space-Based Lasers, which were successfully developed and tested under the ALI (Alpha Lamp Integration) program, and neutral particle beams.[5] Added to a defense in space would be the Navy's Theater Wide ballistic missile defense. Navy Theater Wide, which leverages the investment in the Aegis cruiser fleet air defense system, can provide a theater missile defense system capable of being expanded into a National Missile Defense.[6] These ballistic missile defenses, deployed primarily in fixed orbital tracks in space, must, however, be supplemented with other types of defenses to provide an overall defense with elements capable of maneuver and surprise, key ingredients to

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[5] As contrasted with the $35 billion-$40 billion cost of a six-site ground-based national missile defense (NMD) system, Brilliant Pebbles could have been deployed several years sooner and operated for ten years for a total of about $12 billion, including replacement each of about 1,000 Brilliant Pebbles satellites over the ten-year period following full deployment. Two contractors were conducting a fully approved Demonstration and Validation Phase of the Pentagon's formal acquisition process when the program was canceled by the Clinton Administration. This space-based system would have provided a more effective NMD than six sites of ground-based interceptors, and would also have provided a worldwide theater defense capability against missiles with ranges greater than about 200-300 miles. Defending America: A Near- and Long-Term Plan to Deploy Missile Defenses, Missile Defense Study Team (chaired by Ambassador Henry F. Cooper), The Heritage Foundation, 1995, p. 36.

The feasibility and cost of deploying high energy chemical Space Based Lasers under a 10 year program using streamlined acquisition procedures is, described at length in a March 14, 1995 letter to Senator Strom Thurmond signed by Vance Coffman, President of the Space and Strategic Missiles Sector of Lockheed-Martin Corporation; Timothy W. Hanneman, Executive Vice President, Space and Electronics Group, TRW; and Edward T. Gerry, President of W. J. Schafer Associates, Inc.

The development of the neutral particle beam for ballistic missile defense requires additional development compared to Space Based Interceptors or Space Based Lasers. However, the neutral particle beam holds very promising applications for both a boost phase and mid course defense.

[6] A discussion of an accelerated program for Navy Theater Wide is found in "Time to Move Out on Navy Theater Wide (NTW)," Strategic Issues Policy Brief, Number 14, High Frontier, May 29, 1998.

The specific application of Navy Theater Wide for National Missile Defense is touched on in *Defending America: A Near- and Long-Term Plan to Deploy Missile Defenses*, Missile Defense Study Team (chaired by Ambassador Henry F. Cooper), The Heritage Foundation, 1995, p. 28.

A general discussion of Navy Theater Wide (formerly known as Navy Upper Tier) is found in "Navy Upper Tier," James H. Hughes, Space Energy and Transportation, Volume 3, No. 1, 1998, pp. 13-18.

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military success.[7]

The nuclear rocket, which is able to provide maneuver and surprise, will add a new dimension to a ballistic missile defense deployed in space, consisting of satellites in fixed (predictable) Low or Medium Earth Orbit. With greater speed than a chemical rocket and a greater ability to maneuver, the nuclear rocket can achieve the element of surprise, going beyond usual methods of deception. The nuclear rocket can form a new element for blitzkrieg warfare in space, adding a mobile, dynamic element to weapons such as high energy lasers and particle beams, which are capable of rapid operation.

The nuclear rocket can also provide a means to protect space stations, bases on the moon, and communication, observation, and navigation satellites from attack in space. The nuclear rocket may also be able to supply and reinforce bases, space stations, or satellites, if used in conjunction with other economic assets deployed in space such as a manned lunar base mining water and producing rocket fuel.

The development of the nuclear rocket will form a critical part of a defense strategy calling for the creation of advanced technology with commercial applications. Such a strategy would reinvigorate the decaying industrial, scientific, technological, and aerospace infrastructure of the U.S., which has been in decline for over a decade.[8] The

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[7] The element of surprise cannot be underestimated. The Japanese victory at Pearl Harbor in World War II is an outstanding example of the element of surprise in a devastating military victory. Surprise, deception, and maneuver were essential to General Schwarzkopf's victory over the Iraqis in Desert Storm. General Schwarzkopf led the Iraqis to expect a frontal assault and amphibious landing rather than an encirclement through Iraq's western desert.

[8] In a provocative series, *Aviation Week & Space Technology* "clearly struck a nerve" with recent stories on "Aerospace in Crisis:"

Over and over, we heard that today's aerospace industry is plagued by a lack of vision at the top, a Wall Street-driven focus on stock prices and quarterly returns, endless downsizing and a mindless preoccupation with cutting costs.

Space launch failures may be the highest-visibility indicators of cracks in the industry's foundations. The possibility that the space sector's failures represent systemic problems in aerospace as a whole ought to be reason enough for government and corporate leaders to look deeper. "Misguided Direction Threatens Aerospace Crown Jewel," *Aviation Week & Space Technology*, July 5, 1999, p. 66.

This state of affairs in 1999 has been in no small way induced by constant cuts in defense spending for research and development. The need for better leadership in space and defense has been seen for decades. See, for example, Klaus P. Heiss, "Enterprise and

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nuclear rocket will also lead to new applications of nuclear energy in space. It will result in technological advances for developing a space-based economy, going beyond the use of space as a mere location for communication, observation, and navigation satellites. The nuclear rocket will also promote the exploration and development of interplanetary space.

The nuclear rocket is usually seen as a method of transportation for interplanetary space travel. But it will also greatly impact U.S. deployment of a ballistic missile defense in space because of the tremendous influence that space has on a ballistic missile defense. It will invariably seek to deploy ballistic missile defenses that are effective, requiring deployment in space. An exception is Navy Theater Wide because of its flexibility in deployment - oceans cover about 70% of the earth's surface - and because of its relatively low cost achieved by leveraging the existing investment of the U.S. in the Aegis system. With the exception of Navy Theater Wide, a ballistic missile defense must be deployed in space to be effective.

The High Ground of Space

It is a well established military principle that control of the high ground gives superior position. This principle is as valid for ballistic missile defense as it is for land and naval warfare.[9] For a ballistic missile defense, the high ground of space commands a better position to detect and track a ballistic missile, and a more efficient means to employ defenses, faster than waiting for a ground-based defense to launch itself into space and move into position.

The high ground of space also provides a missile defense with the opportunity to intercept a ballistic missile during its boost phase, a missile's most vulnerable position, when it rises through the atmosphere with its rocket burning. From space, an interceptor or directed energy weapon such as a high energy laser can look down and see a

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the Strategic Potentials of Space," *The Journal of Practical Applications in Space*, Vol. 1, No. 1, 1989, pp. 29-39.

[9] In simple terms, any military theoretician knows that the classic importance of control over the high ground must inevitably apply to near space now that nations have access to it. The logical extension of this is to exploit access to space as necessary to achieve such control in the event of war. Robert C. Richardson 111, USAF (Ret.), "Space, Technology, and National Security," *Journal of Practical Applications in Space*, Vol. 1, No. 1, 1989, p. 71.

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boosting missile as a large, visible target, especially if the interceptor or laser is equipped with infrared sensors for detecting the heat of a rocket's exhaust. In addition, a defense deployed in space will have multiple opportunities for intercepting a ballistic missile or its warheads during the mid-course phase, increasing the probability of a kill. A ground- based defense, in contrast, will tend to have only a single shot at interception, and will not have a boost-phase defense capability.

The advantages of the higher ground of space are especially pronounced in the use of directed energy weapons such as high energy lasers, which would otherwise be limited in range on the ground by line of sight and atmospheric attenuation. The lack of atmosphere in space strongly favors the use of directed energy weapons, especially high energy chemical lasers operating at infrared or visible light wavelengths, which are currently scalable up in power for ballistic missile defense applications.

The necessity of using space for a ballistic missile defense was understood as long ago as the late 1950's when the U.S. began a crash program for building a ballistic missile defense.[10] It was understood, even back then, that a ballistic missile defense needed global coverage to defend against ballistic missiles launched from Russia and global coverage could be obtained by deploying in space.[11] It was also understood that a ballistic missile defense would

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[10] A review and description of early U.S. ballistic missile defense efforts (late 1950's to mid 1960's) focused on space is contained in Lt. Gen. Daniel 0. Graham's, USA (Ret.) High Frontier Supplemental Report, High Frontier, 1983. Graham discusses Project Defender, BAMBI (Ballistic Missile Boost Intercept), SPAD (Space Patrol Active Defense), INSATRAC; (interception by Satellite Tracking), and other programs focused on space.

This early work on ballistic missile defense was focused on solving the problem of intercepting a ballistic missile. It did not reflect later inhibitions on the use of space evident in the 1972 Anti Ballistic Missile (ABM) Treaty.

[11] Understanding of the need to deploy a ballistic missile defense in space is described by Hans Mark in "Defense Against Ballistic Missiles," 1992 Theodore von Karman Lecture, American Institute for Aeronautics and Astronautics, University of Texas:

> As early as 1957, there were people who began to look at the missile defense problem from a different viewpoint. One of these was Dr. Nicholas C. Christofilos of the University of California's Lawrence Livermore National Laboratory. Christ-of-ilos felt very strongly that some kind of a "global" solution [space] to the problem had to be found. He believed that "point defense" systems that could be evolved from antiaircraft artillery would not be effective in protecting whole populations from missiles that could be launched from anywhere in the world... Nevertheless, the Argus

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have its best shot at intercepting a ballistic missile during the missile's boost phase. The early ballistic missile defense program of the U.S. focused on a space-based defense because of the global coverage and boost phase defense capability that a space-based defense could provide. A ground-based defense could not provide the same coverage.

The Role of the Nuclear Rocket

The ability of a nuclear rocket to carry large payloads quickly and its ability to maneuver will have a large impact on the survivability of ballistic missile defenses in Low and Medium Earth Orbit. If the nuclear rocket is combined with a lunar base for mining water and other resources on the moon, including the production of rocket fuel, it could provide supplies to a defense in space, faster and in greater quantities than chemical rockets.

The nuclear rocket may also contribute directly to a ballistic missile defense if it is equipped with miniature interceptors or high energy lasers. Operating independently from a fixed constellation of defensive satellites, the nuclear rocket can provide the military elements of surprise, maneuver, and a reserve for a ballistic missile defense, which a fixed constellation of satellites can only mimic.

In strategy, the nuclear rocket can overcome the possibility of satellites in fixed orbits becoming a "Maginot Line." The nuclear rocket will be able to maneuver quickly, surprise an enemy, and reinforce the defense (a function of the reserve). It can also open an independent line of communication from the moon to a missile defense in Low and Medium Earth Orbit, which would be more difficult to attack than a line of communication from the earth to orbit.

Technology

The positive effect on the United States from a surge in the development of advanced technology cannot be exaggerated. A surge

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experiment [exploding a nuclear weapon in space to create energetic charged particles to disable electronics on space vehicles - nuclear warheads] was important because it was, indeed, the first effort to create a global defense system against ballistic missiles.

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of technological progress, prompted by the deployment of a ballistic missile defense in space and development of the nuclear rocket, would lead to outstanding advances in technology in defense and space. There is a very strong connection between the development of advanced technology and a strong defense.[12] The development of the nuclear rocket will lead to widespread commercial spin-offs benefiting the economy, especially economic and manufacturing activities in space.

During the 1980's, Russia feared the Strategic Defense Initiative of President Reagan not because of its threat to the Soviet Union (SDI could not threaten Russia, being only a defensive system), but because SDI would threaten Russia's ballistic missiles with technological obsolescence and because it would usher in a surge of technological progress in the United States that would far surpass the Soviet economy and military. Soviet leaders also knew the beneficial impact of SDI on the U.S. would further highlight to the Soviet people the failures of communism and benefits of freedom.[13] And the Strategic Defense Initiative was successful in developing advanced technology resulting in many commercial applications, which the

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[12] A discussion of the effect of technology on defense, and the close connection with warfare, is in "Technology and the Strategic Balance," by Hans Mark, Technology in Society, Vol. 4., Pergamon Press, 1982, pp. 15-32, starts, by saying (p. 15):

> One of the recurrent themes of military history is the decisive influence that technology has had on the outcome of conflicts and on circumscribing political events.

Hans Mark continues his analysis of the connection between defense and technology in "The Connection between Basic Science and Critical Technologies for War," submitted to *L'Armement*, 1999.

[13] Soviet fears over the impact of the Strategic Defense Initiative in renewing U technology for defense and improving the economy are described in *The Soviet Perspective on the Strategic Defense Initiative*, Dmitry Mikheyev, Pergamon-Brassey's, 1987.

Mikheyev contrasts the inefficiencies of the Soviet economy and industrial sector with the U.S., and highlights the enormous impact the Strategic Defense Initiative (SDI) would have in technology and the economy, making it impossible for the Soviet Union to catch up to the U.S.

British Prime Minister Margaret Thatcher, President Ronald Reagan, and Vice-President Dan Quayle all credit SDI with hastening the downfall of the Soviet Union, and ending the Cold War.

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Ballistic Missile Defense Organization has reported repeatedly.[14]

The deployment in space of a ballistic missile defense and the development of the nuclear rocket will have extensive ramifications on the U.S. space program. Just as the deployment of a ballistic missile defense in space will call for an energetic program developing commercial space launchers that are quick, reliable, and inexpensive, the nuclear rocket will accelerate the development of space for commercial, industrial, and scientific uses.

The Nuclear Rocket Program

Work on a nuclear rocket program began in the 1950's under Project Rover. The nuclear rocket was an outgrowth of the U.S. development of nuclear energy for the propulsion of submarines and generation of electric power, and an outgrowth of work in rocketry. At that time it was not clear to all, although it was understood by scientists such as Werner von Braun, that chemical rockets could carry men to the moon.

Work on the nuclear rocket continued during the 1960's and 1970's. It was an achievable goal. The people working on the program were confident of its success They felt it was a solid, noble program for the development and exploration of space.[15] But the development of the nuclear rocket was brought to a halt because of changing

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[14] Examples of commercial applications of advanced technology developed under the Strategic Defense Initiative (advanced technology program for ballistic missile defense) are contained in the 1993, 1995, and 1997 Ballistic Missile Defense Organization Technology Applications Report, BMDO Technology Applications Office, c/o National Technology Transfer Center, Washington Operations, 2121 Eisenhower Avenue, Suite 400, Alexandria, Virginia 22314.

[15] Some of the feelings and motivation of the people working on nuclear rocket propulsion - Project Rover, are captured in "Memories of Project Rover come alive at reunion," Reflections, Los Alamos National Laboratory, Vol. 2, No. 10, November 1997, pp. 6-7, as follows:

> The work days were long - sometimes extending through the night - and unwelcome critters were part of the routine. But Laboratory employees who worked on Project Rover recall it as a special time when they achieved success on an important national project... Everyone who worked in the program thought it was a wonderful program. Technically it was very successful.

Also, for a short survey of U.S. nuclear rocket programs - solid core reactor (Project Rover, Kiwi, Phoebus, NERVA), gaseous core reactor, and nuclear pulse (Project Orion), see Rockets into Space, Frank H. Winter, Harvard University Press, 1990, pp. 132-137.

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political priorities. The Vietnam War and Great Society absorbed funding and energy. Changing political priorities less favorable to the development of space, not technology, killed the nuclear rocket (after Apollo, the U.S. did not follow up with a base on the moon or other manned expeditions).[16]

The nuclear rocket can be built. While, conceivably, the nuclear rocket program could build only a single nuclear rocket, it should be understood from the beginning that the program should involve building several nuclear rockets initially, with additional versions to follow, reflecting experience and advances in technology. Just as nuclear submarine reactors have been improved over time, new nuclear rockets can be built reflecting experience and better technology. The program must not be restricted to one, two, or even four "one-time" vehicles like the Space Shuttle, producing a technological "dead end." Technology improves over time. New nuclear rockets should be built just like new commercial aircraft.

The nuclear rocket will be a new method of transportation for space. It will be a tool for supporting a ballistic missile defense based in space. It is also important to understand that the nuclear rocket, rather than a solution to a specific need, is a means to create opportunity, to open new doors to activity in space.

Developing the nuclear rocket will be expensive, costing billions. But the cost is not prohibitive. The investment will repay itself many times. Such a rocket will have a tremendous long-term impact on our

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[16] While a novel idea even for today, Project Orion was initiated and developed during the 1950's through the early 1960's. Orion was practical. For example, Brig. Gen. Robert C. Richardson 111, USAF (Ret.), relates in personal correspondence, December 11, 1997, that:

> When ORION was cancelled I recall Dr. Taylor at Princeton writing in a Memo that it was a shame for: "The program is on schedule, there are no show stoppers, and if successful it will allow the US to send to MARS and back in ten days as early as the mid 1970s"! No way the unilateral disarmers could allow this to succeed especially since ORION had atomic rocket type propulsion.

A review of the utility of nuclear impulse propulsion, exploding large numbers of small atomic bombs behind a large, protective shield - a pusher plate - is found in "Remember the Orion!," by Gray Rinehart, Space Energy and Transportation, Volume 2, No. 1, 1997, pp. 43-48.

One of the virtues of Project Orion is its use of nuclear weapons material for space transportation, systematically exploding large numbers of very small nuclear devices to achieve thrust.

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development of space. Travel from the earth to the moon could take hours instead of days. Travel from earth orbit to another planet could take weeks or days instead of years. Furthermore, the nuclear rocket will be able to carry larger payloads than a chemical rocket. It will have far-reaching effects on the development of commerce in space.

The nuclear rocket would not itself need to be launched from the earth. It could have its principal components assembled in Low Earth Orbit, and operate only in space to meet environmental and safety concerns. The program will very likely need to include a space station devoted to its assembly, and ferry craft for landing on the earth, moon, and other bodies while the rocket is in orbit.[17]

An Analogy

In comprehending the value and impact of the nuclear rocket on a missile defense and space travel, it will be helpful to recall the advantages that nuclear powered submarines have compared to conventional (non-nuclear) submarines. Nuclear powered submarines can go on patrol submerged underwater for ninety days. They could go longer except for supplies and the personal inconvenience to the people manning the submarine. Conventional submarines, on the other hand, are generally limited to a day underwater. Even with AIP (Air Independent Propulsion), conventional submarines have nowhere near the underwater cruising range, speed, or endurance of the nuclear submarine. The advantages of the nuclear rocket compared to a chemical rocket will be even more pronounced in space, where the great distances will greatly amplify the advantage of its higher speed.

Another potential military advantage of the nuclear rocket is that it will not have a long logistical tail. It eliminates most of the need for fuel that is critical to chemical rockets, The problem of fuel supply - logistics - is always a concern for conventional ships and aircraft. Aircraft are refueled from large, vulnerable tankers. Ships are refueled from slow, vulnerable oil tankers. The nuclear rocket will help eliminate the vulnerability of a space-based vehicle to attacks on its line of supply. The nuclear rocket will favor independent action

[17] Although dated, Arthur C. Clarke provides an excellent description of the nuclear (atomic) rocket in The Exploration of Space, Fawcett Premier, 1959, pp. 67-69.

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and surprise, complicating the planning of an opponent.

Interplanetary Space Travel

The effect of the nuclear rocket on interplanetary space travel will be phenomenal. Manned expeditions to Mars, taking weeks or days, will be possible. The nuclear rocket will open up space to interplanetary trade and commerce. It will open up new vistas for commercial and industrial development. We will begin to see Mars as a gateway to both the asteroid belt and the outer planets.

In addition, the nuclear rocket will give the U.S. the technology to maneuver small celestial bodies - comets and asteroids. This ability will alleviate concerns over detecting the improbable event of an asteroid or large meteor on a collision-course with the earth. More practically, nuclear rocket technology can open up opportunities for mining asteroids.

The nuclear rocket will accelerate economic development of the moon, a very rich resource bank waiting for development, Interplanetary space commerce, fueled by the economic development of the moon, which has rightfully been called a giant tank farm in space, could quickly take on an enormous potential for economic growth, greatly expanding technological and economic frontiers.[18] The role of the moon in supplying interplanetary space travel made possible by the nuclear rocket cannot be overemphasized. The economic development of the moon has become very practical with the discovery of large deposits of water at the north and south poles of

[18] Economic interests in space center on vast and diversified raw materials, inexpensive solar power, and industrial techniques made possible by near vacuum and low gravity. Prospects for extraordinary productivity and growth are within relatively easy reach of planet Earth.

The lunar mantle contains all essential elements for the full range of manufacturing and construction on a grand scale, plus so much oxygen that some call the moon "a tank farm in space." Smelters could rely less on costly chemical treatments, because heat alone would remove most impurities from many ores in that environment. Waterless cement, specialty alloys, exotic composites (such as glass/metal mixtures stronger than steel, yet as transparent as crystal), powder metallurgy, cold welding, free- fall casting, and superconductors represent a few among many processes and products that plants in space could facilitate. John M. Collins, *Military Space Forces*, Pergamon-Brassey's, 1989, p. 43.

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the moon.[19] Essentially, any economic development on the moon will funnel itself directly to interplanetary space commerce, including the earth, because of the lower gravitational attraction of the moon compared to the earth.[20]

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[19] Hans Mark, scientist, aerospace educator, leader, and space advocate,, makes a compelling case for a manned lunar base mining water for rocket fuel in a) March 2, 1999 correspondence to Congressman Bob Schaffer, Colorado 4th Congressional District; b), "Ice on the Moon," lecture c. 1999; c) "The Human Exploration of the Solar System," with Lisa Bell, Curt Bilby, John W. Boyd, George Davis, David Korsmeyer, Todd McCusker, Brendan O'Connor, Elfego Pinon, Andrew Frizzell, and Harlan J. Smith, of the University of Texas at Austin, presented to the 42nd Congress of the International Astronautical Federation, October 5-11, 1991; d) "Fast track to Mars," with Harlan J. Smith, of the University of Texas at Austin, Aerospace America, August 1991, pp. 36-41.

The reasoning behind Hans Mark's position is that with large quantities of water available on the moon at its north and south poles, the moon can quickly become a "tank farm" for supplying lunar bases, rockets in space, and space stations in earth orbit with water, hydrogen, oxygen, and other material and chemicals at far less cost compared to supply from the earth because of the far lower escape velocity and lack of atmosphere compared to the earth. Hans Mark explains relationship this at length.

The lower cost of supply from the moon is a result of physics - the moon's lesser gravity. While the investment for developing the moon as an economic resource will be considerable, many billions for an initial base, such an investment will more than repay itself in a capability an order of magnitude greater than using resources launched from the earth's surface.

[20] As has been stated before, the whole problem of the lunar journey - as of any interplanetary voyage - would be enormously simplified if it were not necessary to carry fuel for the return journey. Even if we avoid the need to build a single, impossibly large ship by arranging a rendezvous with a tanker off the Moon, it would still be necessary to carry many separate loads, all the way from the Earth, with the great expenditure of fuel that implies. The entire economics of space-flight would alter drastically if it became possible to refuel on the Moon. This may seem a fantastic assumption [written 1959], and clearly it would not be practical until a lunar colony, with considerable plant and equipment has been established. But if space-flight is to be of any value it will lead to exactly this sort of thing. One of the first aims of such a colony would be, in fact, to search for material which might provide rocket fuel

After air and water - perhaps even before - the search would be for material from which rocket fuel could be obtained. Water may again provide the answer. As was pointed out on page 82, it is possible (though not the best) propellant for atomic rockets. Electrolyzed to produce hydrogen and oxygen, it could drive conventional, chemical rockets. Once it became possible to refuel on the Moon, the whole picture would change and the economics of spaceflight would improve by a factor of ten or more. It may well be necessary for this to happen before we can consider expeditions to the other planets (as opposed to mere orbital reconnaissances).

This point is so important that it is worth quoting a few actual figures. A spaceship leaving the Earth has to attain a speed of 26,000 mph in order for it to "coast" to Venus by the most economical route. If it left the Moon, the starting speed would only have to

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In summary, the impact of the nuclear rocket will extend to:

1. Support of a ballistic missile defense and other assets based in space.
2. Accelerating the economic development of the moon.
3. Opening up manned and commercial interplanetary space flights.
4. Opening up Mars and the asteroid belt to economic development.
5. Maneuver of celestial bodies - comets and asteroids.

The Race for Space

Russia and China have aggressive plans for space. Russia led the space race, being the first country to launch a satellite into space with Sputnik, to launch a man into space, to launch a woman into space, and to build a manned space station. Russia's leadership in space and history of expansion into the Far East give it a mind suited for expansion into space. Russia's Cold War doctrine called for control of space. It still cherishes ambitions in space.

China, which is building new types of road-mobile and submarine ballistic missiles capable of threatening the United States, has also embarked on a program for dominating space, seeking to put men in space, build a space station, and develop the moon for its own purposes.[21] China is also building a high energy laser to attack U.S.

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be 7,000 mph for exactly the same journey, because of our satellite's much lower gravity. If large supplies of fuel can ever be obtained on the Moon, it would become the key to the Solar System. Spaceships making any interplanetary journey would, on departure and arrival, refuel there. They would probably not land but would orbit the Moon while specially developed short-range ferry rockets brought fuel up to them.

It would even be good economics to refuel, from the Moon, spaceships that had just reached orbital velocity around the Earth and were circling it outside the atmosphere. Carrying rocket fuel the quarter of a million miles from the Moon would be cheaper than lifting it the few hundred miles up from Earth! Arthur C. Clarke, The Exploration of Space, Fawcett Premier, 1959, pp. 81-82, pp. 115-116.

Clarke's idea is intuitively seen in comparing the size of the massive Saturn 5 rocket used to lift the Apollo spacecraft off the Earth into space to the much smaller size of the Lunar Module used to lift two men from off the moon.

[21] China's manned space program has been described at various times, for example, "China close to manned spaceflight," *USA Today*, June 28, 1999, p. Al, declares out that:

> China could launch its first manned spacecraft as early as next spring.... U.S. and British space experts believe China has the expertise and equipment to launch, orbit

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satellites, which will enable it to deny and control space.

China and Russia, both of which could destroy the United States using long range ballistic missiles, are planning to surpass the United States in space. But the development of the nuclear rocket would put the United States ahead of them and would also keep the U.S. ahead of other countries in space.

Conclusion

The development of the nuclear rocket is a key investment for the future. While a ballistic missile defense of 1988 vintage design, relying on satellites in fixed orbits using lasers, space-based interceptors, and neutral particle beams, remains a very sophisticated system in 1999, and necessary for U.S. defense, the nuclear rocket will provide such a system with a new level of support.

The United States is beginning to face its most important issue - the lack of ballistic missile defense. It is only now beginning to respond to the danger it faces. To do this it must deploy a ballistic missile defense in space. This deployment will call for the development of space. The nuclear rocket can support such a ballistic missile defense and will lead to a surge of technological innovation; scientific, commercial, and defense applications of space resources; and interplanetary space travel.

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and retrieve a manned vehicle. China's first test launch of an unmanned capsule is set for October to honor the 50th anniversary of the founding of the People's Republic of China.

Reports indicate China hopes to build a full space program, including an orbiting space station and a space shuttle-type craft, and to dispatch a robot moon probe....

Aviation Week & Space Technology has also reported on China's manned space program, and its program for building a high energy laser to attack U.S. satellites.

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The Future of the Gulf

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East Asia Between Economic Integration and Military Destabilization: US and Japanese Viewpoints

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Tokyo, Japan

If East Asia is the most likely area for a future major conflict, cooperative issues affecting regional security must be reviewed from distinct US and Japanese angles. The emerging China threat is a clear example of conflicting economic and military interests. New technologies and asymmetric situations will affect intelligence and battlefield operations.

Key words: Theater Missile Defense, US-Japan security relations, dual technologies, information technology, reusable launch vehicles, space.

A study published by the US government in the fall of 1999 concluded that East Asia is the most likely area for a future major conflict. Regardless of whether one tends towards arguing in favor of disarmament or anti-ballistic missile defense system deployment, everyone seems to agree that there is a clear and present danger developing in that region, and that it is getting worse. On the Japanese side, the issue is first of all a domestic one that has to do with cutting the Gordian Knot of the notorious Article 9 of the Japanese Constitution, which forbids Japan to actively deploy militarily for its allies or its own sake. Then there are the problematical aspects of a partnership with the US which defines its current and future agenda more in terms of securing crucial technologies and military and financial contributions than of managing regional relations and of furthering alternative options for the future, which include a stand-alone Japan as one of the options.

In the 1980s the future of Asia was so bright that everyone needed sunglasses. This led to the collective delusion and bitter awakening that was experienced later. This was a lesson in humility,

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but did it really improve our ability to define a proper vision for North-East Asia today? For the present it is difficult to find a common focus from either the US or the Japanese perspective.

The Korean Scene

Perhaps one should start with a South Korean approach to the issues: South Korean President Kim Dae Jung had long desired a regional vision. The so-called "Sunshine Policy" *vis a vis* North Korea represents only one of its balancing acts between economic issues and the ever-paramount regional security dimension.

For President Kim, who sees the Sunshine Policy as his first priority, chances for conflict resolution are enhanced when economic issues are clearly separated from security issues, and when the discussion is reduced to a limited number of regional powers: South Korea, Japan, and China. His urgent need to stabilize the South Korean environment is continuously threatened by changes in the exchange rate between the Yen and the Dollar. This exchange rate affects South Korea's hi-tech exports and the ever-postponed devaluation of the renminbi. Such a devaluation would affect South Korea's and most of Asia's traditional manufacturing sectors. A South Korean return to prosperity – and it so far has recovered to double-digit growth figures – will impact positively on the gradual economic integration of North Korea with the South.

However, in the aftermath of the September 1999 Berlin talks, there has been yet another demonstration of what Caspar W. Weinberger would call "the consequences of dangerous appeasement vs. effective negotiations." There have been decades of brinkmanship, and the past 18 months have been marked by post-Korean War style tactics. The result has been that even though the recent resumption of Japanese-North Korean direct flights and communications offers a path to resumption of economic relations between the two Koreas, North Korea has conceded nothing on the key issues. It has not committed itself to cancel its ICBM or other weapons-systems deployment, or to put a moratorium on chemical or nuclear arms development, or to end its already irreversible exchanges with Pakistan and Iran or Iraq. Clearly, North Korea is still keeping its bargaining chips intact.

This has caused concern to China by providing the Japanese with the necessary excuse for a new defense agenda and for entrance into

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TMD cooperation program with the US. And while North Korea may proceed to test its notorious Taepodong-2, with or without a third stage, and may ask for more concessions afterwards, South Korea is secretly increasing the range of its missiles to 300 miles, which is beyond the 180-mile limit of the missile technology control regime desired by the US.

The Threat from China

Meanwhile, China is crossing another line by testing its Julang-2 ICBM, which if it has a range of 6 to 8,000 miles is capable of hitting Paris, London, or New York, it can be launched from a type 094 nuclear submarine, and as such could be operational as early as 2005. Like the surface-to-surface Dongfeng-31, the Julang-2 is equipped with technology adapted from the US's most advanced Trident D-5, including the notorious W-88 miniature nuclear warheads. Even though the Julang-2 is equipped with a "small" warhead (of from perhaps less than 0.5 up to 2.5 megatons), it will give China a second-strike capability. China is building a second short-range missile base at Xianyou, only 135 miles from Taiwan, whereas the previous one, Yongan, was 220 miles away from the island. The deployment of up to 500 short-range CSS-7 missiles by 2005 threatens to override any defense system that can possibly be implemented for Taiwan, although it is likely to generate further build-up by the island as a somewhat hopeless deterrent. It will become more difficult for the US to juggle the "one China policy" pledge with the commitment to fulfill the Taiwan Relations Act and provide the proposed missile defense systems for Japan, South Korea and Taiwan, not to mention a global system following the death of the flawed ABM Treaty.

So China is engaging in a nuclear build-up, which will threaten not only Japan and Asia, but India, the US and Europe. It is replacing Russia, which itself will be a threat by default if it continues to deteriorate, as the major active counter-force to the Allies. It is embracing a cohort of rogue states that are likely to be all-too-happy to play their role in the strategy of "one thousand needles."

On the other hand, China has invited Pakistan and India to solve the Kashmir conflict peacefully; and since India has repudiated its previous statement of considering China a threat, China has proposed a "security dialogue mechanism" with India.

Taiwan's predicament is a major cause of concern in East Asia.

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It justifies both a joint US-Allied forces intervention in case of attack by China, and a joint US-Japan defense. Whether a joint US-Japan anti-missile defense system and regional military cooperation may be engineered remains to be seen. But the cost of defending Taiwan will be high, especially in light of the latest Chinese anti-aircraft early-warning system – a Passive Coherent Location System that tracks the turbulence caused by aircraft in commercial wavelengths systems, making the stealth F117A and its kind visible again.

While Ret. Adm. Joseph Prueher, former Commander in Chief of the US Pacific Command, has now become Ambassador to China, his successor, Adm. Dennis Blair, has already taken a clear-cut line on the China and North Korea missile threats and the associated defense-system issues. Indeed, this is perhaps the first time that a senior US military official in the current administration has clearly formulated US regional missile-defense objectives. Does this mean that the alleged global leader of the post-Cold War area is entering the 21st century acknowledging a defensive stance *vis a vis* China? Referring to Adm. Joseph Prueher's stand-off in the Taiwan Straits in 1996, does this mean the West must abandon all attempts to deny China a rising Asian and world influence? Will the US have a harder time in leading the game, or does it "take three to tango" now that a humiliated Russia and a China, shell-shocked in Yugoslavia, have seemingly joined forces to challenge US global leadership?

Recall the incident on May 7, 1999, when a B-2 took off from Whiteman Air Force Base in Missouri to release a super-accurate JDAM bomb over Belgrade (equipped with four adjustable fins to control its flight, which was continually checked by seven satellites, allowing a precision range below two meters). The bomb "mistakenly" struck the office of the military attache located in the southern end of the Chinese Embassy, leaving the north end untouched. In the process, it destroyed the rebroadcasting equipment of Arkan and his "White Tigers" (which afterwards had to rely primarily on cell phones). That presence was the tip of the iceberg in China's longstanding military support of Serbian Yugoslav.

The incident has made it easier for China to justify in advance any interventionist manoeuvre against Taiwan or against the disputed resources-rich islands of the China sea, as well as its access to the Panama Canal through the Hong Kong-based Hutchison Whampoa Ltd, which now has control of the Canal ports' lease agreements. At

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the very same time the US is laying open the path for China's entry into the WTO (provided its entry remains meaningful in the context of the heated reception given to the WTO meeting in Seattle), it remains to be seen whether China's current build-up implies ulterior intentions. China may wish to blame the West for any future missile-defense systems or for any "aggression," doing so as cover for long-standing plans of its own. The high level contacts forged by Ambassador Prueher during the remainder of his tour with officials in the Chinese government and senior officers in the People's Liberation Army will make pivotal his fluency in the nuances of the complex relationship with China.

China's appetite for the resources of the South China Sea is not lessened by the claims of Taiwan, whose involvement in the controversy increases the complexity of these issues. As clearly demonstrated by Mark J. Valencia, Jon M. Van Dyke, and Noel A. Ludwig in their book *Sharing the Resources of the South China Sea*,[2] the "Republic of China", as Taiwan calls itself, adopted in 1993 "Policy Guidelines for the South China Sea", which asserted sovereignty over "the Spratly Islands, the Paracel Islands, Macclesfield Bank, and the Pratas Islands", and also stated that: "The South China Sea area within the historic water limit is the maritime area under the jurisdiction of the Republic of China (Taiwan), in which the Republic of China possesses all rights and interests". Taiwan now occupies the largest of the Spratly islands, Itu Aba (Tai Ping Dao) and reportedly has stationed 600 marines there. Occupation and construction plans involve the nearby Ban Than Reef as well. The goals of such arrangements are increased military presence, surveying and registering the land of the islands, protection of fisheries and navigation, security of development operations in the maritime sphere, establishment of satellite communication facilities and navigational land, construction of airport and dock facilities, establishment of an environmental data-bank, adoption of environmental protection measures, collection of useful information on resources, and drawing up development programs. Subsequently, Taiwan's Navy has been planning the equivalent of the 7th Fleet under the form of the new "168 Contingent", whose patrol areas will

[2] University of Hawaii Press, Honolulu

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include the South China Sea, in a face-off with China, the key player in virtue of its size and growing military, economic, and political muscle flexing. Beijing's strategy appears to follow various simultaneous paths: to strengthen its naval capability, to enhance and expand its physical presence, thus legitimizing its territorial occupations, to attract Western oil companies to explore the disputed areas, and to insist and conduct bilateral diplomacy with the other claimants: Taiwan, Vietnam, Malaysia, Indonesia, Brunei, Philippines... Indeed, China seems to have developed a "three Nos" policy to deal with the Spratly's issue: no specification of claims, no multilateral negotiations, and no internationalization of the issue, including no involvement of outside powers. In that sense, appeasing statements made by Ambassador Prueher regarding the need for China to sort out a peaceful regional settlement of the issue, might accommodate Beijing. The only difficulty is that, although China has offered "joint development" to other claimants, its concept of joint development seems closer to the notion of "what is mine is mine, what is yours is negotiable", as it involved clearly joint development of oil and gas fields on other claimants's continental shelves, and then only after China's sovereignty over these has been recognized! And to make it even more entertaining, China's idea of "joint" in joint development seems to be foreign participation in the development of what it considers to be its resources, as opposed to the more conventional (Law of the Sea) mode of joint development, i.e. the pooling of rights over resources in disputed areas.

Although China has never stated it clearly, it has demonstrated its intentions by a number of actions of invasive nature, rather inconsistent with its rhetoric, not mentioning the similar issue of the Senkaku (Diaoyutai) islands. China basically opposes a multinational organization to manage the resources, not only because of the Taiwan recognition issue, but also because China refuses to believe that such an organizations might help to resolve the sovereignty issue to its satisfaction. What China wants, instead, are bilateral negotiations with parties it can dominate, and bilateral joint development as a last resort solutions. Clearly, a China which opposed formalization or institutionalization of the previously Indonesian-sponsored talks, and this not just because of Taiwan's participation, sends the signal that it is willing to establish its own rules for international "order" rather than accommodate existing practices under international laws and frameworks.

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World Trade Organization Issues

The relationship between China and the current US administration is challenged by the possibility that Congress will not support China's accession to the WTO. This is an interesting situation that encompasses many issues. It remains to be seen how Congress – rather protectionist, not especially favorable to China, acting during an election year, feeling pressure from trade unions, and preferring to promote trade with Africa – will deal with it. China indeed does not need the WTO to flood the markets of Asia and the world with its low-price products, or to expand its range of high-end and hi-tech manufacturing. Japan and China have resumed a diplomatic relationship that will extend their already-developed relationships in trade, investment and other fields. They still have to resolve the issues of jointly-controlled sea boundaries that badly affect Japanese fishermen. These are, however, bilateral and regional issues. They impact on Asia's economy as a whole, considering the weight of the Japanese and Chinese diaspora in trade and investment there. From a Japanese point of view, WTO is not relevant to this. Indeed, as a whole, Japan has already demonstrated its unwillingness to see further trade liberalization by blocking the Early Voluntary Sectoral Liberalization effort in the Asia Pacific Economic Cooperation Forum, against the background of an Asia still recovering from its financial crisis. Interestingly, Europe developed some tactical complicity with Japan in promoting its notion of 'multi-functionality' in agriculture, conveniently distracting attention from its export subsidies, whereas the fully subsidized Japanese agricultural cooperatives and fertilizer industry are undergoing drastic restructuring.

The WTO for Japan, as for Europe, is only acceptable if it allows members to minimize concessions in agriculture through a package deal that is marketable to their domestic political bases. Japan has already undertaken so many drastic adjustments at home, from agriculture to financial institutions to cope with the impact of its fast emerging internet-economy, that it does not need any further destruction of the regional and global trade, logistics, and manufacturing arrangements through which it has tread carefully over time. Furthermore, the US's WTO line rather confused than clarified issues on labor standards and environmental, both touchy subjects for China, as out of domestic electoral concern, a statement was made by

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the current US administration that it would like to see economic sanctions imposed against countries not meeting acceptable labor standards. Indeed, globalization is already a fact: Japan invented it long time ago with its sogo shosha tentacular global reach in trade and industries. China will continue to develop its diaspora, controlled either directly or indirectly by Beijing. Lack of fluency in Mandarin and Japanese may one day be as embarassing as lack of fluency in English or Spanish is today.

But the real trouble with the WTO is even more simple: under a rather abrasive US trade negotiator it lacks the consensus-building mechanism necessary to effectively deal with all the different vested national interests, incorporate the views of the mushrooming NGOs worldwide, and cope with the new counter-power born in the late '90s – citizen groups online. Internet has benefited the NGOs, as activating an online network costs little compared with Gutenberg era 'agit prop'. From the bridges of New Belgrade to the neighborhood support group and the corner bookstore, online communities can be constructed overnight to struggle against dictators, even hopelessly, or to put pressure on local congressmen. They can build new allegiances, besides the one to the flag, made up of a community of interests fighting for a common goal. Even in China, where the Internet, as the "evil" tool of raw freedom, is severely controlled, such online networks appear. Equally, Beijing itself may choose to use NGOs and other apparently uncontrolled "free" organizations, including online groups, as a tool to advance its interests at the grass-root level to permeate freer and more open societies.

Indeed, China has demonstrated its ability to utilize the US capital market with its global reach, including Japanese mutual funds, to further both its political leverage and its access to resources, which become more interesting when, as is the case in other developing economies, substantially lucrative Chinese firms are controlled by the military, or by people connected to it. As monitored by the Center for Security Policy in Washington, such has been the fate of the CITIC, the China International Trade and Investment Corporation, headed by the notorious Wang Jun, who is also chairman of Polytechnologies, an arms trading company described as the most profitable of the armament structures owned by the Chinese army. This organization is alleged to have been involved in a scheme to smuggle 2000 AK-47s into the US for West Coast street gangs, and to have contributed

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$600,000 in campaign donations to the Democratic National Committee in 1996. CITIC secured access to as much as $800 million in the US bond market since 1985, and with an office in Tokyo, raised substantial amounts in the Japanese capital market during the "Bubble Economy", with Japanese investors blindly following the US example. Since it is likely that some of these funds might have been diverted to support Chinese weapons proliferation, this raises questions as to the compatibility of profit-oriented capitalism with national and trans-national security issues, and the relation between national security issues and financial fund management.

Another interesting precedent has been set in the case of the China National Petroleum Company's tentative IPO. CNPC is a central player in Beijing's plan to forge strategic alliances with foreign energy producing countries to offset what is expected to be potentially severe domestic energy shortfalls in the next decade. In the process, CNPC was said to have invested roughly $1.5 billion in Sudanese oil exploration and development, and the Chinese government has reportedly committed an additional $15 billion over time for "infrastructure development projects" benefitting the Islamic extremist regime in Khartoum. In other words, should the IPO be successful, the average baby-boomer retirement fund could end up underwriting one of the most totalitarian governments in Africa, engaged in the acquisition and production of weapons of mass destruction, terrorism, slave-trading, and anti-Christian ethnic-cleansing. In conjunction with the 1997 Russian gas monopoly Gazprom's abortive issue of a $3 billion bond to support its exploration and development activities in Iran, senior US legislators took their concern to the NYSE Chairman. Finally, beyond the Los Alamos case and the cooperative arrangements between China Aerospace and the US industry, a lot remains to be sorted out before significant improvement can be achieved in the US–China relationship.

US-Japanese Collaboration

In retrospect, the '90s US policy in Asia has been marked by a pendulum movement, essentially favorable to Japan – at least for the time being – but showing clear Japan-bashing at times, and a foreign relation profile by the US, consisting of playing one country against the other, which let Japan conclude that the US would eventually give

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priority to its relationship with China, starting with presidential visits ("Japan bashing – Japan passing – Japan nothing"). From a Japanese perspective on US-Japan relations, its cooperation with the US in military technology had a history rich enough in content that it could endure some bumpy developments at time. A remarkably thorough 1998 study by Mrs Masako Ikegami-Anderson[3] concentrates on the collaboration in SDI Research, the FS-X/F-2 fighter support co-development project, and technological research collaboration in TMD. This analysis of US-Japan collaboration projects traces middle-and long-term changes in military R&D trends before and after the Cold War, noting that the broadening of interfaces between military and civilian technologies are likely to enhance international cooperation in military R&D and what the study calls the "commercialization of military technology". In addition the study shows how military R&D collaboration has been influenced by other factors, such as US-Japan economic and political relations, and technological trends, and displays great accuracy in the light of latest Japan-US defense guidelines, TMD, and North Korean developments.

This study clearly shows that the call for wide international collaboration on SDI (the brainchild of President Reagan and a unique Cold War endeavor) was made for its political effect rather than technological and financial imperatives. But by tapping into other technologies, SDI collaboration became a flexible-sum game for the allies when Japan decided to join it, mainly out of interest in advanced technologies rather than its strategic and security effects. In addition, the DoD had in the early 80's showed interest in Japanese dual military-civilian use technology and initiated a government-to-government agreement for enhancing the bilateral exchange of technology for military R&D. It turned out that Japan's participation in SDI research did not especially enhance the technological collaboration either, but an important outcome was the upgrading of an interface based on decades of collaboration in weapons co-production to a substantial new network of military R&D between the US and Japanese defense industries. This is one major

[3] "Military Technology and US-Japan Security Relations: a study of three cases of military R&D Collaboration, 1983-1998", prepared as a Dissertation for the Degree of Doctor of Philosophy in Peace and Conflict Research at Uppsala University, Sweden, also distributed by the Center for Pacific Asia Studies, Stockholm University.

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achievement of SDI research collaboration and shows the extent to which the Reagan vision determined today's US-Japan joint efforts.

The study also takes a sharp look in retrospect at the late-1980s controversy surrounding the FS-X project, now called F-2. Out of a routine weapons co-production experience between the US and Japan, issues of technology transfer, blended with the then-trade balance feud plus all kinds of subjective factors, aggravated the perception gap. But while the FS-X program was settled by the military-industrial complexes in both countries, those left out in the US strongly opposed the program. To make matters worse, the FS-X project was not so clearly defined in Japanese defense policy itself (although it poured substantial funds into civilian R&D on new composite materials, for example, which gave Japan an edge in this industry, amongst others). The Japanese Defense Agency political autonomy being constrained both within domestic politics and within the US-Japan security framework, there was no way for Japan to formulate its own consistent security policy and strategy. Actually it is still not clear whether the JDA officials at the time did not worry about possible over-capacity of offensive nature, or the impact on the regional security issues.

Finally, national and international communication with the public at large has been extremely poor on both sides. Starting with an unclear Japanese Defense Agency decision making process, although there has been plethora of information on the negotiation process itself, contradictory opinions on the issue were not circulated to the public by the media, also contributing to the US misperception that there was a real Japanese domestic consensus in favor of an indigenous project. This was actually the case in respect of the JDA and Japanese defense contractors involved, but not among the LDP governing party, the MITI, and the Gaimusho (Ministry of Foreign Affairs). Inversely, the Japanese public was fed a perception of an "unfair America", not particularly helpful in the process. As a hard-learned lesson, the FS-X project's controversial nature does not make it a model for future US-Japan military co-development, but there remains a need to find a new dimension for collaboration between the two countries, based on mutual respect and understanding, and the elimination of old bad habits.

Cooperation appears to work a little better with the joint TMD (Theater Missile Defense) project, now starting to take shape in the

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early 21st century. Discussions about the project began in late 1993, when despite relentless Chinese protests, something had to be done to deal with the North Korean missile threat. When the Japanese 5 trillion Yen (US$40 billion+) Defense budget request got the green light in 1999, it marked the first increase in this category in three years and featured a number of requests to deal with developments concerning North Korea. North Korea's threat received close consideration in Japan's Defense Agency 1999 White Paper, also leading Japan in 1999 to officially begin a joint research project with the US to develop the sea-based component-led Ballistic Missile Defense program. The agency's annual report urged that Japan strengthen its intelligence-gathering capability and countermeasures while promoting coordination with the United States, South Korea and other concerned countries.

In a special chapter added to the 1999 report, the agency re-examined North Korea's launch of a Taepodong type ballistic missile in August 1998, as well as the Japanese Self Defense Force's chase of two North Korean spy ships that entered Japanese waters in March 1999. The annual report finally welcomed the government's decision to introduce four information-gathering satellites by fiscal 2002. Back when President Reagan proposed the SDI program, it was a breakthrough on all fronts: the idea itself, the decision-making process, organizational arrangements (SDIO), and international cooperation starting with the Japanese Defense industry. But as a matter of fact, only 3% of the contract went to European, Commonwealth, Israeli, and Japanese contractors. When the project was scaled down to post cold-war BMD programs to deal with rogue proliferators, the current US administration's approach, based on its particular views on financial and technical feasibility, as well as threat assessments, led to a greater share of foreign participation (MEADS), and larger use of dual-use technologies, for budget and technical convergence. Since late 1998, the US and Japan endeavored to scale up cooperative research, which also provided some relief to a Japanese defense industry tied up in procurement budget constraints and the post-Bubble economy decade-long hangover. Economically as well as strategically, it has become vital for the Japanese defense industry to be permitted to export military components installed in weapons co-developed with the US. That also has been piling up pressure on the LDP-led coalition government to reconsider the

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"Three Principles of Banning Arms Exports".

At last the situation is changing. Under the new US-Japan Defense Guidelines Bills passed by the Japanese Lower House, and subsequently cleared by the Upper House by the end of May 1999, Japan has expended its tactical security activities, including operations and interventions by the Japanese Navy. Prime Minister Obuchi said that a "firm security alliance" between Japan and the US is indispensable for Asia Pacific peace and prosperity. He added that partnerships should also be built with other countries based on the foundation of US-Japan ties, and he proposed establishing confidence-building measures in the region through dialogue. Indeed Japan still must go through a process of maturating relations with other Asia-Pacific countries. In this respect the meeting with South Korean President Kim Dae Jung in October 1998 showed improvement, when Obuchi apologized for Japan's 1910-1945 colonial rule of the Korean Peninsula, and the two leaders pledged to increase the frequency of top level meetings in order to promote bilateral ties. Japan must also help by propping up its economy, and turn around the Asian economies.

The steps taken included the record Yen 82 trillion national budget for the fiscal year ending 31 March 2000, and the injection of Yen 7.46 trillion in public money into 15 major banks. Japan also positioned itself on the Kosovo crisis by helping refugees but did not provide financial support for Nato's bombing campaign (Dixit Obuchi: "fees for air strikes are not something for Japan to pay"), although Japan did concentrate its resources on Macedonia and Albania, announcing an additional relief measure totaling $185 million for ethnic Albanian refugees, bringing Japan's total assistance to Kosovo to about $200 million, including $15 million of aid announced in April 1999. Obuchi also said he believes Japan-US relations are at their best in history, adding that he wanted to create stronger and wider ties based on the "common values of liberty, democracy, and respect for human rights". Indeed, the hosting of the Year 2000 summit for the Group of Eight in Nago, Okinawa prefecture, will "have a positive impact on relations with the Okinawa people and illustrate the strength of the US-Japan alliance and also the US deep interest in the culture and economy of Okinawa" said State Department Spokesman James Rubin. Nago, 70 km. from Naha Airport, is located in the center of the main island of Okinawa,

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and has a population of 55,171 for an area of 210 square km. It is the third most spacious city in the prefecture, and has a number of US military facilities, including US Marine Corps accommodation, training, communication and fuel storage facilities, that occupy 11.2% of the city.

The Japanese Defense Agency also reported in May 1999 that it is likely to launch a domestic project for the development of a new antisubmarine patrol plane that should become the first major aircraft owned by the Self-Defense Forces to be developed in Japan. This model would replace the existing fleet of US developed P-3C Orions of the Maritime Self-Defense Force that discovered suspected North Korean spy boats in Japanese territorial waters in late March 1999. The North Korean intrusion was timely in creating pressure on SDF patrol operations and prompting the agency to increase defense capabilities through domestic technology. The new patrol aircraft is expected to be introduced in fiscal 2010 at the earliest. The agency will seek budgetary allocations, including the cost of research and production of a prototype, in fiscal 2000. The MSDF currently has a fleet of 100 P-3Cs that are used mainly for the detection of submarines. Their current version of the P-3C, first introduced in 1978, is equipped with four turboprop jet engines, and flies at a maximum speed of 395 knots. It is computerized to process information from detection equipment and locate submarines. These P-3Cs were manufactured in Japan under US license, whereas the US discontinued its production to move to P-3Cs Update III and IV, and the P-7. The agency had been seeking a replacement for the P-3C as one of its priorities in a defense plan for fiscal 1996-2000, and plans to introduce 100 of its new patrol aircraft, including 10 for training. Specifications for the proposed plane will be drawn up by the Technical Research and Development Institute of the Agency, and the Maritime Staff office. The new model is likely to be a large aircraft with four turbofan jet engines that will make it capable of much faster speeds than the P3-C. It is expected to have an improved sonar system and magnetic anomaly detector (mad). Furthermore, instead of returning to MSDF bases with aerial photos for processing – as was the case with the suspected North Korean spy boats – the agency is considering introducing a system that would enable the radio transmission of images.

Since the MSDF has traditionally operated the same types of

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submarine patrol planes as the US navy, some agency officials were concerned that difficulties might arise during Japan-US joint operations. However, development of a "made in Japan" model has been given priority for the purpose of strengthening the domestic defense industry, according to a senior agency official. In a related development, then Defense Agency Director General Hosei Norota pledged that his agency will map out an operational manual for sea patrol missions in case of possible encounters with intruding vessels. To fall in line with the government's long term stance that Japan does not possess a military force, the manual will not be referred to as Rules Of Engagement.

Speaking on board of the destroyer Haruna, which chased one of the North Korean boat in March 1999 for nearly a full day, Norota said that the patrol manual would be completed after the MSDF 3 months exercise off Hawaii and California. The Aegis destroyer Miyoko, which chased the other North Korean boat, and two other MSDF vessels left Yokosuka to try new sea-patrol tactics during the drill. Norota indicated that the Japanese agency and the Defense Ministry of South Korea had decided to open a hotline in May to exchange military intelligence over North Korea. This will allow the two country's navies and air forces to share intelligence. New MSDF missile boats, which will carry ship to ship missiles, would be deployed at Maizuru. The first two are scheduled to be completed in fiscal 2001. If the Maritime Safety Agency can not cope with the intrusion by foreign vessels, the MSDF will take on the job. During the North Korean vessels incident, two F-15 fighters of the Komatsu Air base of the Self Defense Force were also involved, after North Korea launched four MiG-21s during the chase in the Sea of Japan. The fighters did not make contact since the chase was broken off once the intruding boats made it out Japan's Air Defense Identification Zone. During the chase, an MSDF P3-C was used to drop warning 150 kg bombs in front of the boats. 7.62 mm machine guns could have been used, but the MSDF did not have any on board. Other alternatives used to stop intruding vessels without harming them are firing ropes and spraying water, mockingly referred to by Norota as an "atomizer"... Finally, this incident demonstrated, as the MSA patrol vessels failed to keep up with the North Korean 'fishing trawlers', the need to enable the MSDF to speedily receive authority to pick up the chase. In this regard Norota said that as soon

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as bills covering updated Japan-US defense cooperation guidelines clear the Diet, he would begin talks with Transport Minister Kawasaki to improve communication and cooperation between Japan's two competing maritime authorities.

Returning to the TMD cooperation framework issue, a line was crossed when a Washington Department of Defense report indicated that the US is considering four types of TMD systems to be deployed in Japan to counter possible missile attacks from North Korea. The report, which has been submitted to Congress, also disclosed Washington plans to deploy TMD systems in South Korea and Taiwan. For the latter, the report envisions the danger of ballistic missiles attacks from mainland China. The report is being seen as the Defense Department's first concrete outline of a TMD deployment plan in East Asia. However, the department ruled out the possibility of a TMD deployment in Asia in the near future, stressing that the report is not intended to describe general development and production issues surrounding the missile defense umbrella.

For the defense of Japan, the report suggested four deployment options. One option – a sea-based system that is an improved version of one under development – would provide complete coverage of Japan from a single position on the ocean. It would be an "upper tier" system, as it would target incoming missiles outside of the atmosphere. The US and Japan began joint studies on a sea-based system, called the Navy Theater Wide (NTW) defense system, later in 1999. The report said another upper-tier version of the sea-based system, one of the four options, would require four sea-based positions to fully cover Japan. Another option is for a lower-tier, land based system, similar to the US Patriot antimissile system. However, that arrangement would be difficult to maintain, because it would reportedly require more than 100 firing units to protect the entire country. The remaining option is to use a land-based, upper tier arrangement, similar to the Theater High Altitude Area Defense (THAAD). That would require four to six fire units to protect the entire country, according to the report. For South Korea, a land-based, Patriot type system would be needed to protect the country from North Korean missile attacks, considering the fact the countries share the same border and therefore missiles flight paths would be relatively short. For Taiwan, the report said that either one land based, upper-tier fire unit with a radar similar to that used by

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THAAD, or a system similar to NTW using a single position on the ocean, could counter any ballistic missile attack from China. The Taiwanese government on April 30, 1999, welcomed the inclusion of Taiwan alongside Japan and South Korea in this report. Foreign Ministry spokesman Roy Wu said the report clearly showed Washington's commitment to the 1979 Taiwan Relations Act, under which the US pledged to supply the island with defensive weapons. Wu also said that "the report clearly recognizes the Chinese military threat toward us", also referring to Pentagon anticipation that China would continue to deploy short- and medium-range ballistic missiles over the next several years. Therefore, also following a devastating earthquake, which proved, if necessary, the resilience of the people of Taiwan, not following up on this support to Taiwan (including its accession to WTO too) would be rather inconsistent.

Following several days of consultations in Washington with Taiwanese defense officials, the current US Administration has agreed in principle to sell an $800 million radar system that will provide early warning of a missile attack. The sale of phased array radars came at a time when China, which considers Taiwan a renegade province and has strongly protested the transaction, had deployed new missiles along the narrow strait separating, the two nations that the Intelligence community suspects could be equipped to deliver a nuclear warhead. US officials said that the Taiwanese vice chief of the general staff, Teng Tsu-Iing, has been discussing the purchase of the radar and other military equipment in Washington with Pentagon and State Department officials (the talks were considered so sensitive that neither of the agencies, which customarily announce such high-profile meetings, has mentioned them on public schedules at the time). The officials said that the two sides had "come to terms on the broad outlines of a deal, and they were continuing discussions on the fine print". The transaction was at an advanced enough stage that the Taiwanese Defense Ministry has budgeted the equivalent of $795 million over six years for what it has dubbed the "An Pang project". US defense officials said they were planning to sell two phased array radars, manufactured by American defense contractor Raytheon Co., to Taiwan, and that these radars could detect high-flying missiles from as far away as 1,440 km – which would give Taiwan up to 10 minutes to prepare for an attack. Taiwan's current early warning system cannot detect a missile or

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other type of airborne threat until it comes within 600 km. of the island. During a mid-1999 briefing on the investigation into nuclear spying by China, senior US intelligence officials told that Beijing had recently deployed 100 short-range ballistic missiles along the Taiwan Straits.

But the current US administration is also tied up by too many contradictory commitments to both China and Taiwan. In Washington, Yu Shuning, senior Chinese diplomat, said in May 1999 that diplomatic protests had been lodged there and in Beijing. Yu said the arrangement violated a pledge by Washington, embodied in the three communiques that formed the framework of the establishment of Sino-US relations in 1978, to reduce arms sales to Taiwan until Beijing and Taipei are reunified, and not surprisingly in Beijing, the President of the Chinese Parliament expressed concern about the set of Japanese Defense Bills. Li Peng, Chairman of the Standing Committee of the National People's Congress, reiterated China's concerns about the bills, which are set to enhance defense cooperation between Japan and the US, in a meeting with Upper House President Juro Saito in Beijing. The former Chinese Premier said "Japan's explanation on how Taiwan is treated in the bills have been vague. The Chinese People will continue to keep a close watch on it". The bills referring to facilitation of Japan-US defense cooperation in emergencies in "areas surrounding Japan", of special interest to the Chinese is the amendment to clarify indeed which emergencies would prompt action by Japan. The amendment reads: "such situations which, if remained unchecked, may bring direct armed attack against Japan", whereas the original bills only referred to "situations that would have an important influence on Japan's peace and security". Saito told Li that the Japanese lawmakers, in defining such situations, do not have specific geographic areas in mind, but rather would pay attention to the circumstances of a given situation, and was quoted as saying: "the bills will not have any impact on the security of countries near Japan". In Shanghai, Democratic Party of Japan Naoto Kan was meeting with Wang Daohan, Chairman of China's Association for Relations Across the Taiwan Straits, to discuss the bills, prior to a visit to Beijing where he met early May 1999 with President Jiang Zemin and Foreign Minister Tang Jiaxuan. Kan was quoted as saying to Wang that: "many Japanese see the bills as a mean to prepare for potential threats from

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North Korea, not from China". Clearly, this is not totally accurate.

Further Japanese Defense Initiatives

The 1999 Defense Agency budget requests go mainly to the purchase of frontline weaponry and equipment, to beefing up the nation's ability to deal with suspicious ships, to countering attacks by armed guerrillas, to combating biological and chemical weapons, to improving the capability of E2C early warning aircraft and to strengthen aerial inspection and warning capabilities. The Agency sought 4.999 trillion Yen, an increase of 79.5 billion Yen, or 1.6%, over the current fiscal year. Fiscal 2000 (April 2000-March 2001) is the final year of the Agency's current five year medium-term defense armaments plan and the Agency sought 816 billion Yen for the purchase of frontline weaponry and equipment. The Defense budget represents a 2.5% increase over present fiscal military spending, it also features a number of requests to deal with developments concerning North Korea. Indeed, North Korea's ability to produce missiles that can reach any part of Japan is a cause for extreme concern and an issue that directly affects Japan's security, the Defense Agency said in its 1999 White Paper released after a July 1999 cabinet meeting.

The Agency's annual report urged that Japan strengthen its intelligence-gathering capability and countermeasures while promoting coordination with the United States, South Korea and other countries concerned about the matter. In a special chapter added to the 1999 year's report, the Agency re-examined North Korea's launch of a Taepodong type ballistic missile in August 1998, as well as the Self Defense Force's chase of the two North Korean spy ships that entered Japanese waters in March 1999. The annual report welcomed the government's decision to introduce four information-gathering satellites by fiscal 2002, to the reaction of Taepodong test. The report said that by then North Korea is likely to have completed development of 1,300 km range Rodong missiles and to have deployed them to put most of Japan within shooting range. The Scud-based Rodong, however, does not have the accuracy necessary to execute pinpoint attacks on certain facilities, the paper notes. The Taepodong-1, used in August 1998's missile launch, combines a Rodong as its first stage and a Scud as its second stage. It is claimed that the liquid-fuel Taepodong-I's range is more than

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1,500 km. Now North Korea is developing a Taepodong-2 missile, an advanced two-stage missile that uses a newly designed booster as the first stage and a Rodong as the second stage and has an estimated range of 3,500 to 6,000 km, the report says. "North Korea's missile development, coupled with the suspicion over its nuclear weapons development, is a serious concern which is becoming a destabilizing factor not only for Asia-Pacific region but for the entire world," the white paper says.

Subsequently, it became also legitimate and relevant for Japan to consider deploying the three out of four Aegis missile warships in the Sea of Japan to detect signs of launch in case of North Korea appears set to go ahead with reported plans to test a new ballistic missile, Japanese government said in August 1998. Once the government obtain the missile has been fueled, it will immediately convene a national security meeting and consolidate all information through the cabinet's security and crisis management office. The chief cabinet secretary will then inform the media about indications of a missile launch. Finally, Japan will warn North Korea about specific measures it will takes-such as the freezing of financial transfers to the North- unless Pyongyang desists. Actions are also being planned for individual ministries and agencies, such as the calls by the Foreign Ministry for the United States and South Korea to close ranks and warnings by the Transport Ministry to commercial aircraft and vessels near the Sea of Japan. Three of Japan's four Aegis-equipped destroyers will be deployed along the Sea of Japan coast to ensure the missile is tracked properly.

The sources said Japanese and U.S. defense authorities initially differed over informing the public about an imminent launch once the missile has been charged with liquid fuel due to last year precedent. Japan's Defense Agency was in favor of a public announcement, while the U.S. expressed caution about disclosing information gathered by its satellites. A compromise was reached when Japan stressed its ability to monitor the fueling and agreed to release such information to the public without saying how it was obtained. If the missile hits Japanese territory, the Self-Defense Agency will issue an emergency order dispatching the Self-Defense Forces to the impact site under a legal provision allowing their deployment to cope with the disasters. In the event of multiple impacts or other circumstances that indicate the intention of an armed attack, the Agency has already decided to

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mobilize the SDF for defense of the Japanese archipelago, the sources said. Japan is also planning to hold military drills in fiscal 2000 (April 2000-March 2001) simulating an anti-guerilla fight against North Korea infiltration or a defense against a missile attack, Defense Agency chief Hosei Norata said in August 1998. The plan would also involve the establishment of a "medical testing unit" under the Agency aimed at researching means with which to deal with a biological weapons attack. The drill would cover various scenarios, including guarding the coast against North Korean operatives who might try to infiltrate the country, search and pursuit, reconnaissance and urban fighting operations to train self defense forces personnel against an attack on key facilities such as nuclear power plants, airports, SDF bases.

Under the plan, Agency officials will be sent to the US in the next fiscal year April 2000 - March 2001 to study how to form and equip a special anti-guerilla unit in the future. To finance its plan, the agency had approved its proposal for the fiscal 2000 budget that includes Yen 2.9 billion for anti-guerilla operations.[4] Japan will establish a special Maritime Self-Defense Force unit trained to both disarm and inspect ships, by the end of fiscal 2000 and in addition, Japan will launch a new section in the SDF that will integrate and analyze reconnaissance information gathered by the SDF's ground, maritime and air units. The Defense Agency will move ahead with the project in fiscal year April 2000 - March 2001, in response to the incident in March 1999 in which two unidentified ships, allegedly North Korean, intruded into Japanese waters. The Agency had its necessary funding just confirmed later on in August 1999 as part of its requests for the fiscal 2000 budget. The new MSDF unit will consist of 60 personnel in three platoons and be headquartered on Edajima, Hiroshima Prefecture. The unit will use helicopters and high-speed boats, personnel will wear bullet proof jackets, be armed with machine guns, pistols, tear gas and flash grenades. Personnel will

[4] For a background on the North Korean threat – the largest special operations force in the world – we recommend the book *North Korean Special Forces* by Joseph S. Bermudez Jr., published by the Naval Institute, Special Warfare Series. Joseph S. Bermudez Jr is a consultant for the US and South Korean governments, and the author of many works on North Korea, Middle East defense and intelligence affairs, and Third World ballistic missile development.

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be send to the US next fiscal year April 2000 - March 2001, to study procedures for boarding and disarming ships.

The Agency sought 31 billion Yen to strengthen the nation's ability to deal with suspicious ships. It wants to purchase two high speed patrol boats, equipped with portable infrared night-vision scopes and costing 19 billion Yen. Escort vessels mid patrol helicopters will be equipped with 12.7 mm machine guns. In addition, a special patrol team consisting of 60 people will be created toward the end of fiscal year April 2000-March 2001, to disarm and inspect any suspicious vessels located in Japanese waters. Furthermore, 2.7 billion Yen was sought to counter attacks by armed guerrillas. The funds will be used to construct and equip a simulation training facility and to despatch troops for training with US Army commandos, just in case Japan might have to deal some day with the notoriously ruthless North Korean Special Forces. Another 2.4 billion Yen was sought to combat biological and chemical weapons. The post of special weapons research officer will be set up within the research headquarters of the Ground Self- Defense Force and a special team of 20 members will be established to work out ways to tackle attacks that use biological weapons.

In an effort to improve the mobility of mine-sweeping troops, 52 billion Yen was sought for a large 13,500 ton refueling ship. Funds totaling 9.8 billion Yen were requested to improve the capability of E2C early warning aircraft and to strengthen aerial inspection and warning capabilities. The Defense Agency also sought 275.7 billion Yen to help offset the costs of stationing US troops in Japan. The total request matched the April 1999 - March 2000 fiscal year's budget, and the budget was approved by three defense policy committees of the ruling Liberal Democratic Party. So, finally, to deal with ballistic missiles, a new division will be set up to ensure more efficient intelligence gathering and analysis. Efforts will also be made to improve the accuracy of ballistic missile radar tracking systems. 2.1 billion Yen has been earmarked for joint research with the US on a Theater Missile Defense system. This project will be carried out over the next five to six years, the missile being equipped with a so-called kinetic warhead capable of shattering an enemy missile without exploding. Military analysts, some of them retired senior Japanese military officers, talked frankly about the possibilities of an arrangement that many Japanese officers regard as almost taboo: the

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formation of a joint command, possibly led by an American General. Analysts see differently whether the new guidelines for U.S.-Japan defense cooperation provides or not the basis for a joint command. Last Spring, the new guidelines approved by the Japanese Parliament, give a "mechanism" to coordinate "respective activities during contingencies". Mr. Masuda, at the time Director of Defense Policy for the Japan Defense Agency said that mechanism could be a committee with several subcommittees or perhaps a coordination center, with U.S. and Japanese colonels aided by liaison officers. Some defense analysts interpret this coordination center could turn to a joint command if the war broke out in the region. Others view it as an hope or as a deep concern by allowing a foreign control in the country, a unified command would face Japan's constitutional constraints. However, Mr. Masuda said the US and Japan would have to revise the Security Treaty in order to authorize a joint or united command, since "it is legally impossible at the moment".

The US Perception of Japan

Meanwhile, in a publicly released study, the National Intelligence Council was mentioning that "An abrupt shift in Japan's role and posture is also possible. Japan has a history of changing directions fairly quickly and dramatically. The right stimulus could generate a reorientation in Japan's approach to the US, the region, and to national security". In other world, Japan is bound to develop a more independent military capability keeping in mind that its alliance with the US may fall apart some day, making most of it in the meantime. The most important finding claimed by the National Intelligence Council in this study is that there is a "new strategic uncertainty" in a Japan unsure "whether its importance to the US is waning and whether US and Japanese security interests are diverging", finding its origin in a summer 1998 bypassing of Japan during a US presidential trip to China, and the initial embarrassment following the Taepodong test fired over the Sea of Japan by North Korea in August of the same year, at which time Tokyo qualified "the US reaction to this major security shock as rather nonchalant". The public statement was a bit misleading too, and if there has been "nonchalance", this was not necessarily on the US Defense or Intelligence side. Indeed, back in 1994, Senior Pentagon Official Joseph Nye's initiative had been to upgrade the US security's arrangements with Japan, whereas the

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Pentagon would provide the Japanese Defense Agency (JDA) with ultra high resolution images of all the military installations in China, North Korea, and Siberia. In exchange, the JDA would supply the US with intelligence from its electronic eavesdropping on military communications with China and North Korea. The US did deliver its end of the deal by providing the JDA with ample warning on the upcoming North Korean Taepodong launch. Proof is that the JDA diverted an Aegis destroyer to the Sea of Japan in order to track the missile's path more accurately. Eventually the JDA informed the head of the National Security Division in Prime Minister Obuchi's Government, but decided also that nobody else would be informed. It was then easy for the truly unaware Japanese politicians to frame the US as unreliable once the thing broke out.

Besides, there are deeper reasons quoted by the reports. The prolonged economic recession and the never ending restructuring of the Japanese system and society have led to "a loss of prestige and influence". Japan has also determined to go its own way through autonomous developments in key areas such as independent reconnaissance satellites, and various military equipment including aerial-refueling capability for its jet fighters. Other signs have been noticed such as the Japanese resistance to Chinese pressures for apologies, the active pursuit of the North Korean spy vessels, the decision to hold the year 2000 G8 summit in Okinawa, the just granted legal status to the flag and the national anthem by the Japanese diet, the fact that Japanese voters elected nationalist Shintaro Ishihara ("The Japan which can say No") as Tokyo prefecture governor last spring 1999. The collection of signs allowing the National Intelligence Council to reach its above mentioned conclusions should also include the arrangement made to allow and facilitate within the year 2005 a fundamental review, pending revision, of the Constitution, centered around these key policy issues of regional defense, and international military co-operations.

These are signs, but the question is their assessment and interpretation. The fact is, the days when Japan was an hapless nation totally dependent on the US for its security, not to say its survival, may be counted now. Besides, it is a rather limited view not to consider that Japan may on the contrary support the US in some regional conflict. But one should keep in mind the fundamental notion of insular insecurity ("fuan") which is at the core of the

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Japanese collective soul and shaped its behavior for centuries, and not forget that the motto 'Rich Nation, Strong Army' ("fukoku kyohei") is still somewhat rooted in the country. Indeed the stakes are not only Japan's national security but its technological leadership, as numerous spill over in the civilian industry of Japan generated by its past military technological partnerships have demonstrated. For Japan, a longstanding behavior has been to enter into cooperation with foreign partners in order to acquire strategic technologies, market positions, protection, and other means, then indigenize these assets until it can assume full autonomy, and occasionally challenge the former partnership stake and agenda, once it has been properly and fully exploited. Clearly, this may sometimes happen at the dismay of a foreign partner short of contingency planning. At least, relationships with Japanese first class organizations and firms have grown mature and reciprocated to the extent that access to US strategic technology is less of an underlying issue than it is with China for example.

Indeed, the declassified version of the Cox Report is self-explanatory on what harm the system's loopholes can allow as much through casual corporate transactions than alleged information theft by the Chinese. It also shows the necessity to undertake a "Nexus" approach to issues, combining the political, military, economic and technological aspects when contemplating a private sector deal which may threaten the integrity of the US or the national interests of its allies; for example, when, driven by short term profit-oriented policies, such a deal provides a potential foe with strategic technology assets which may backfire later on.

Back to Japan, it becomes more difficult to challenge Japan's defense decisions when it is confronted by such uncertain neighbors as North Korea and China. As for military and technological partnerships, it is the very nature of such partnerships that the parties involved may have second thoughts or develop a hidden agenda in the course of time. But to make it a Japanese or Japan vs. US issue does not lead to anywhere constructive, or make the parties more able to cope with each other. Partnerships with the Japanese require a far-reaching and flexible approach, and a taste for lengthy negotiations producing steady outcomes – while better personal relationships might generate constructive success. One should not develop a "Pearl Harbor complex" and fear sudden twists in Japanese policies, but

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should instead work for a well-engineered partnership, based on mutual respect and understanding.

The Japanese Constitution Article 9

Indeed the most important question with regards to the guidelines is how realistic it is to place limitations on logistic support, for fear this becomes "unconstitutional" military support. The absurdity of the situation is that Japan has a choice between being a hated enemy to potential foes or an unreliable ally to actual friends. In short, the US-Japan alliance may be rather described as a pseudo-bilateral one combining two unilateral relationships, one where the US bleeds for Japan in wartime, and one where Japan feeds the "sympathy budget" for the US in peace time. Should the relationship mature, it has to become more bilateral, which calls for a Japanese constitutional amendment.

When China becomes edgy about joint US-Japan endeavors regarding situations which affect Japan's security in "areas surrounding Japan" – which happen to surround China too – we might remember that China's Constitution states that military service is the sacred duty of citizens, and the application of a reciprocity principle would solve the dilemma. China's criticisms of Japan, while further building up its nuclear and ICBM capability, has become quite an unbalanced situation, for which US-Japan defense cooperation guidelines permit temporary contingency planning by loosening the constraints of the Second Paragraph of Article 9. A first step could be the adoption of a specific list of forbidden acts which would allow Japan to plan for better logistics support. But eventually the issue is about changing the interpretation of Japan's right to collective self-defense to enable it to play a more active, domestic, regional (and why not global?) role in cooperation with the US – which eventually implies a thorough review of the critical Second Paragraph of Article 9 by the forthcoming investigative committees on the Constitution.

Russia, China, North Korea and Pakistan

The picture would remain rather incomplete without evocation of the important background role played by Russia, and the overall balancing act within the complex Eurasian continent. Japan has played a low-key but important role in supporting the Russian

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Perestroika economy in the early 90's when Russia was flooding global markets with practically free-of-charge military commodities, and it has also strongly invested in western and eastern Russia, while negotiating a peace treaty and an agreement on the northern islands. Russia has been tapping Chinese and South Korean coffers to sell military equipment for hard cash, further fueling the arm race. In September 1999, China approved an agreement with Russia to buy two nuclear-powered submarines to deter any US presence in the Taiwan Strait as relations between Beijing and Taipei worsen. The $1 billion deal for the Typhoon-class submarines capable of launching nuclear warheads was reached during Russian Deputy Prime Minister Ilya Klebanov's August 1999 visit to Beijing, according to mainland diplomatic sources cited in Hong Kong. Chinese President Jiang Zemin and his Russian counterpart Boris Yeltsin endorsed the sale during their talks in Bishek, Kyrgyzstan. Sources indicated the submarines were aimed at deterring the US 711 Fleet from intervening in intensified cross-Strait relations following Taiwanese President Lee Teng-hui's call for "state-to-state" ties with Beijing. The Typhoon-class submarine is one of the world's most modern and largest nuclear-powered submarines, equipped with 20 launchers capable of firing SSN-20 ballistic missiles which have a range of 8,300 kin, the report said. The upgrading of advanced arm sales was seen as sustaining the "strategic partnership" pledged by Jiang and Yeltsin in their talks. Russia is also to sell advanced SU-30-MKK fighter jets to China. The Interfax news agency reported the aircraft were part of an arms deal worth $2 billion reached during Klebanov's Beijing visit. Hong Kong also reported early September 1999 China's first firing of missiles from a high altitude in late July 1999, and the firing of missiles from submarines in naval exercises north of Taiwan. China's relations with Taiwan have been soured further by Taiwan's ruling Kuomintang enshrining the ideas of statehood in party documents. Beijing said the move will push the island toward "the abyss of war". Jiang has reiterated that while Beijing would prefer peaceful reunification with Taipei, it had still not ruled out the use of force.

A Russia-China-India axis, as suggested by one of the previous prime ministers (Yevgeni Primakov), is unlikely to work although all three countries resent US dominance. Lately China and Russia appear to be willing to jointly actively oppose US influence, which is a low point in US-Russia relationship compared with the Reagan and

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Bush administrations, regardless of Prime Minister Putin's attempts to soften Yeltsin's stance. Indeed Russia was still cooperating with India on nuclear issues when the Pyongyang-Islamabad lethal connection was activated. In May 1998 the wife of a North Korean diplomat in Islamabad, whose husband was believed to be a key figure in North Korea's secretive missile program was shot to death in her home, and her busband left the country. Almost two years after the incident, few Pakistani officials maintained that Madam Kim Sanae was killed when a neighbor accidentally fired a shotgun be had borrowed from a guard. Other officials says the truth of Kim's death is more sinister: some familiar with the case saying that "she was killed by her own government," either because she was disclosing secrets about North Korea's missile and nuclear programs or because she was planning to defect. This case, coming amid the clamor following Pakistan's nuclear tests in summer 1998 and reports of North Korea's plans to launch a long-range missile capable of hitting Alaska, brought new interest in the military connection between Pakistan and North Korea. US officials believe that North Korea has provided crucial help to Pakistan's missile program and the economically troubled Pakistan may be tempted to pay for that help with secrets from its nuclear weapons laboratories. "Pakistan has the bomb, wants North Korea's missile, but doesn't have any money" said Henry Sokolski, an arms control expert in Washington. "North Korea has missiles and wants the bomb. That's a prescription for trouble".

Other experts have said that North Korean technicians are working in Pakistan's nuclear laboratories. While there are reports that hundreds of thousands of its people are dying from starvation, the North Koream government is relentlessly developing hi-tech weaponry. The US military believes that North Korea has shipped missile components to several countries, including Iran, and its relationship with Pakistan has helped to aggravate the military confrontation on the Indian subcontinent. Many worry that North Korea will renege on its promise to stop developing nuclear weapons under the 1994 deal with the US, and a US official has reported evidence of a continuing Korean relationship with the nuclear-capable Pakistan. In June 99, Indian officials seized a North Korean cargo ship that they said was bound for a Pakistani port. The North Korean crew said they were ferrying water-purification equipment to the Joint Economic Development Corp. in Malta, Indian officials found that

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no such company existed. In the ship, they discovered 177 crates of blueprints, manuals, parts and machine tools for Scud missiles. After Pakistan tested a medium-range missile in April 1998, the US imposed sanctions on Pakistan's Khan Research Laboratories and on the North Korean company that shipped missiles components to Pakistan. US officials believe that the Pakistani missile, the Ghauri, was a carbon copy of the North Korean Rodong rocket. One month later, Pakistani conducted five underground nuclear explosions, and two weeks later exploded six underground nuclear devices. It was a week after the last Pakistani test, in Spring 1998, that Kim, the wife of the North Korean diplomat, was killed in Islamabad. Pakistani officials do not appear eager to talk about the case. Kim's husband, Kang Thae Yun, is suspected by Western experts of arranging the delivery of North Korea missile components to Egypt. According to diplomatic sources, Kang was the local director of North Korean Mining Development Trading Corp. believed to be the front company of North Korea aims sales. He is also believed to have brokered a 1997 deal with an unidentified Russian company to bring maraging steel to Pakistan and North Korea (maraging steel is a key component of missile bodies and nose cones).

Sources said that technicians of Pakistan's Khan Research Laboratories frequented Kang's home. Khan, the chief of Pakistani's nuclear weapons program, said he had made a deal with Kang in the mid-1990s for the purchase of 200 SA-16 shoulder-fired antiaircraft missiles. These missiles are not capable of carrying nuclear warheads and Khan said that North Korea had not provided any assistance to Pakistan's missile program. According to other diplomatic sources, at the time of Kim's death, North Korea was delivering two shipments of missile components to Pakistan per month. The flights were said to have stopped in May 1998, shortly before her death.

Clearly, this might not have happened without some kind of Chinese endorsement, so even though the China-Pakistan link has somewhat shrunk considering the China-India rapprochement, the India-China axis will likely remain rather unstable and fiercely competitive, but also historically close relations with Moscow have somehow kept India distant from the China-Korea-Japan hub. Provided the shadow cast on the India-Japan relationship by India's 1998 nuclear test gradually dissipates, the resumption of balanced bilateral relationship between India, China, and Japan will bring new

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opportunities in otherwise competitive trade and investment flows. With its combined population and economic power, Japan-China-India relations may in future be a key factor in resolving regional crises in Central Asia, with its explosive blend of Muslim, Russian, and Chinese influences, with resources, infrastructures, and transportation as the stakes.

Intelligence Gathering in Asia

But one should keep in mind that the foregoing analysis runs the risk of re-fighting the last war rather than getting prepared for the upcoming new threats, strategic contexts, and asymmetric configurations. Progress in Information Technology and Internet development in Japan and Asia are today simply amazing at the civilian level. But there are also numerous emerging dual-use (civilian and military) technologies that will create new challenges as they circulate amongst and are more or less controlled by their key developers in the US, Japan, China, and possibly India. The most ostensibly invasive form, hacking, has attracted attention lately between China and Taiwan, and even in East Timor, but the truly significant potential has to deal with stealth interference with the adversaries' ability to attack defense systems from both ground stations to satellites systems, including jamming and deceptive combat environment simulation, including virtual reality subterfuge to lure enemies into traps, and to command and control land and space systems. However, traditional information and intelligence gathering methods and infrastructures remain vital and relevant: thus facing an adversaries' advanced weapon and intelligence systems and also the threat of rogue states in asymmetric combat might prove a lethal combination to the West. In order not to fall victim to its own assumed technological and resources "superiority", the West will have to assimilate the combat pattern of the "Ninjutsu", which is the essence of tactics in dealing with micro-scale asymmetric aggressors. More "special forces", in a wider meaning, are needed, with maximum information on an adversary's reseources.

Japan: While the new Japanese Self Defense Force information section will now be staffed by 60, Japan intelligence organization with in addition later on surveillance satellites of its own, has remained of rather modest size so far, which indeed explains the absence of crisis within the Japanese intelligence services with the end of the Cold

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war. Under tutorship of the US General MacArthur HQ at the end of the war, and beyond the end of the US occupation in 1953, Japan, whose economy benefited greatly from the Korean War, also benefited from the US nuclear "umbrella", and from access to US intelligence from 1950 onwards, based on the original US-Japan Security Treaty. Also, participating directly to the UK-USA Agreement, Japan received rather regularly elements of electronic intelligence. The main organ of Japanese intelligence, responsible for the elaboration of researches and strategic studies, is the Naikaku Chosa Shitsu or "Naicho" (Cabinet's Research Office) directly under the authority of the Prime Minister, headed since April 1997 by Mr. Kazuhiro Sugita (Sugita-san). Its analysis, particularly its weekly classified report on the international situation, are distributed to the upper levels of the Japanese political and military leadership. The Naicho, reputed as one of the most efficient service of the Pacific Rim area, is primarily turned towards China and Russia. As it employs only 122 persons with a budget of $25 million, these low figures are compensated through active collaborations with other ministries. Eventually this service may be upgraded to 300 persons, with the adjunct personnel from the Gaimusho (Ministry of Foreign Affairs) and the police intelligence services.

Until 1995, military intelligence was treated by the intelligence services of each "arm" equivalent to the army, navy, and airforce, then coordinated and directed at the level of the Japan Defense Agency, by the Director of Information from the Intelligence Division at the Prime Minister Office ("Boeicho"). The operational coordination of services was performed at the level of the Joint Staff Council, by the Director of Intelligence. But in 1995, also in view of development in Russia, China, and North Korea, it was decided to merge all intelligence services of each arm in one sole body of military intelligence, a change which was approved in May 1996, and operational since January 1997. The merged body includes the "Nibetsu", which is the former 2nd office of the Land Forces HQ, responsible for the collection and exploitation of military intelligence at tactical, operational, and strategic level. It relies largely on 30 Japanese Military Attaches dispatched worldwide. It also includes the "Chosa Beshitsu" or "Chobetsu", which is the Nibetsu's electronic intelligence body. Created in 1958, it gathers about 1000 military collaborators originating from the different arms of the Self-Defense

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Force, and is based at Camp Ichigaya in Tokyo area. Its eavesdropping stations, initially turned towards the former USSR, North Korea, and China, have doubled in number since the early 80's, in order to also cover the South China Sea, South-East Asia as a whole, and Taiwan, and are spread all over the archipelago: 7 in Hokkaido, 6 on Honshu, 4 on Kyushu and the Southern islands. The "Chobetsu" is indeed the central entity of the new service. Subsequently the ex-Department of Intelligence from the Air Self-Defense Force and from the Sea Self-Defense Force have been merged in the entity, designated as "Johohonbu", with its HQ inside the building of the Japanese Defense Agency in Ichigaya. With a short hierarchy (Director, Deputy Director, and five Directorates: Administration, Planning, Analysis, Imagery, and Electronic Intelligence, it employs 1220 military collaborators and 362 civilians (total up to 2000 if required by events), with an annual budget in excess of $65 million, and is directed by Lieutenant-General Masahiro Kunimi (Kunimi-san). It also provide primarily support to Japanese Self-Defense Forces engaged in overseas peace-keeping operations. Although the bulk of information collection is on the Electronic Intelligence Directorate, the deployment of satellites will result in increased preponderance of the Imagery directorate. The Ministry of Foreign Affairs which has its own Office of Analysis, Research and Planning of Information, decided in 1991 for the creation of an International Information Bureau including 100-200 analysts, also helped by the Jetro (Japan External Trade Organization) in the field of economic intelligence, which, together with the Japanese business diaspora, has proven rather efficient.

China: The situation is rather different with China, as security and intelligence services are traditionally evolving from the Party and the Government's security services parallel development. Originally i.e. before 1928, the Party security service was the Organization Department, subordinated to the Communist Party Central Committee, while in parallel the government had control of the Political Security Office (Zhengzhi Baohuju). In July 1928, was formally created the Department of Special Affairs (Theng Wu and later on Tewu) of the Communist Party Central Committee, under the direction of Chou-En-Lai. The Tewu was reorganized by its new chief, K'ang Sheng, following a November 1938 decision by the Communist Party Central Committee, aiming at an enlargement of

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the security services scope. In today's structure, as of early 90's, the Chinese services are revolving around services depending on the Communist Party apparatus, and the government (State Council). They are under the control of a Coordinator of Security Services (Qiao Shi since 1994). The services subordinated to the Party include the Diaochabu, Office of Investigations from the Communist Party Central Committee. Then the department of International Relations of the Central Committee, responsible for outside intelligence, which is linked to the Institute of International Relations, created in 1965, and closed during the Cultural Revolution, then reopened in 1978, and which performs the training of agents from the various Chinese services. Finally, the Tewu (formerly Theng Wu) which remains the Chinese security service. The services subordinated to the government include the Qingbao (formerly Cheng Pao K'o), which the military intelligence service, "Second Department" of the People's Army General Chief of Staff, HQ located 21, North Andeli Street in Beijing. Its "Third Section", responsible for analysis, is located between the Summer Palace and Xiangshan, north-west of Beijing. The Quingbao is responsible for Military Intelligence. It also resorts to clandestine agents. Interestingly, its activities, originating in military intelligence, are now rather geared towards technological intelligence. Thereafter comes the "Third Department" of the People's Army General Chief of Staff, responsible for electronic intelligence, which is also in charge of the Institute of Foreign Languages of Luoyang. Then the Military Security service is the Chi Pao K'o. Afterwards, the most recent Chinese service, created by Deng Xiaoping, is the Guojia Anquanbu, Ministry of Public Security, which is responsible for strategic intelligence, State security, and control of frontiers. And finally, the principal body of intelligence and security is the Goganbu, which is the Ministry of State Security.

The entire systems rely or more or less 26 eavesdropping stations, spread all over the territory, from the north to costal areas to the south, in the middle, and on the borders with Mongolia and Kazakhstan. The Indochinese peninsula is covered from Sop Han in Laos. Since the end of the Vietnam War, the Chinese intelligence services have developed closer relations with their western counterparts, including some 'neutral' countries. In January 1982, the US and China signed an agreement allowing the US services to access intelligence originating from two stations in western China, Korla and

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Qitai, geared towards Kazakhstan, Mongolia, and Russia.
Korea: Not surprisingly, North Korea's intelligence organization is similar to the Chinese structure. It includes a governmental branch, subordinated to the Prime Minister, and the Party's branch. Both are directed by the President, Kim Jong-Il having succeeded to his father Kim Il-Sung, who is also the Great Leader of the Korean Workers Party. Subordinated to the Council of Ministers (State Administrative Council or Cabinet) comes first the Office of General Intelligence, responsible for strategic intelligence, and which includes four departments: the Department of Operations, responsible for clandestine actions, and operational support to terrorist activities (training and logistics), including these routinely geared towards South Korea and Japan, plus abductions of South Korean, as well as Japanese nationals, mostly for language and cultural training of North Korean spies sent to Japan. Then comes the Department of Foreign Intelligence, which is the most important body of North Korean intelligence, and is responsible for the gathering and exploitation of intelligence, organized in topical and geographical subdivisions. Then comes the Department of the Front for Unification, which is responsible for active measures against South Korea, such as propaganda campaigns, and disinformation through radio and TV broadcasting, press, tracts, and lately, the Internet. Finally comes the department of Liaison, which is responsible for the training of illegal agents, for managing North Korean spies networks in South-Korea and Japan, and for liaising with these agents.

Then back to the previous level, after the Office of General Intelligence comes the Ministry of Public Security, leaded by Vice-Marechal Paek Hak-Nim. Separated from the Interior Ministry in October 1962, it is responsible for countering sabotage and terrorist acts, protecting State and Party dignitaries, and repressing criminality. Finally, the Ministry of the People's Armed Forces, has its own Intelligence Office within its General Chief of Staff, which deals with planning and organizing missions of far reconnaissance together with the North- Korean special forces, which are based in three locations way beyond the DMZ: Namp'o (west coast), Nakwon, and P'yongwo (east coast). Regarding the organization of intelligence and security subordinated to the Party, it includes mainly the Department of State Security, created in 1973, and which complements the activities of the Ministry of Public Security for surveillance, repression of dissidents,

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and counter-intelligence. North Korea does put a particular emphasis on clandestine actions and special operations against South Korea. It includes actions of sabotage and spying on the South Korean military and industrial infrastructure, for which commandos incursions in South Korea are frequent, mostly through coastal areas (including mini submarines), in addition to three tunnels tentatively dug under the DMZ in the 70's.

North Korea also relies on the infiltration of agents of influence, and resort to the production and exportation of illegal drugs in order to procure currency. It also relied heavily until 1998 on a substantial pachinko (pinball game) parlors network in Japan, the Yen supply of which collapsed following the Taepodong launch, but might resume.

South of the DMZ, the South Korean organization is simpler, the main security and strategic intelligence body being the Agency for National Security Planning (ANSP), which replaced the Korean Central Intelligence Agency, and is located at 70 Sejong-no, Chongno-gu, in Seoul, employing about 10,000 people. Indeed it has a history as agitated as South Korean leadership itself. In late July 1989, Soh Dong-Kwon, former Attorney General, replaced General Park She-Ji at the head of the ANSP, but on March 30, 1992, following manipulated elections, the head of the ANSP was replaced by the Interior Ministry Lee Sang-Yon, himself replaced on October 9, 1992 by General Lee Hyun-Woo, chief of presidential security, due to public pressure on the non re-eligible President Roh Tae-Woo. The ANCP Chief ha beens Kwon Yong-Hae since 1994. Military intelligence is controlled by the Defense Security Command (DSC). On October 1, 1990, following a Watergate-style scandal, President Roh Tae-Woo replaced the DSC Chief, Lieutenant-General Cho Nam-Pung by Lieutenant-General Koo Chang-Hoe, succeeded by Lieutenant-General Sub Wan Soo in 1992.

Furthermore, some departments were terminated, and the DSC staffing reduced to 5,000 people. President Kim Young Sam elected in February 1993, put a priority on reforming intelligence services. In February 1993, the ANSP Director is replaced by Kim De-Ok, a former political sciences professor. The Agency is then being streamlined, losing its duties on interior security and political police, and focusing its mission on foreign intelligence. Updating on the North Korean nuclear program and permanent regional tensions actually prevented the ANSP from being dissolved as demanded by

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the opposition, and actually demonstrated the evidence of South Korean overall intelligence shortcomings. In Mars 1993 the DSC Chief was replaced by Major-General Kim Do-Yoon who is given the mission to reorganize the DSC. Eventually the two services are being placed under parliamentary control, exercised by the Commission of Intelligence at the National Assembly. Furthermore, the ANSP is being cut from direct presidential (Kim Dae-Jung) control, and subordinated to the Ministry of Defense.

Taiwan: As soon as he arrived in the "renegade province of Taiwan" in 1949, Tchang Kai Tcheck set up an intelligence and security organization headed by his son Tchang Ching Kuo, who created six services during the 50's: The Office of National Security, subordinated to the National Security Council; the Office of Military Intelligence, the Command of Garrison, and the Department of Political Warfare, subordinated to the Ministry of Defense; the Office of Investigations subordinated to the Ministry of Justice; and the Office of Intelligence, subordinated to the General Chief of Staff.

However the most important intelligence service today is the Office of National Security, subordinated to the National Security Council. Originating from the Lien Lo Pon, it is organized and headed by General Cheng Chieh-Ming in 1949. His son, Alexander Cheng, was in charge of intelligence gathering until his death in 1991 at 50. The office was headed by General Wang Ching-Hsu (1980-85), General Sung Hsin-Lien (1985-93), and General Yin Tsung-Wen since 1993. It is responsible for strategic intelligence activities, both foreign and interior, as well as for counter-intelligence, and reports directly to the President and the National Security Council. The military strategic intelligence branch is the Office of Military Intelligence (Qingbao Ju) of the Ministry of Defense, created in 1949. The Command of Garrison was created in 1958 under the Taiwanese Command for Preservation of the Peace, itself created on May 19, 1949. Responsible for combating subversive activities on the island, it operated early telephone and electronic eavesdropping, managed a selection of clandestine radio stations, and conducted surveillance of clandestine radio broadcasts coming from the Mainland. Abolished on July 31, 1992, some of its functions were taken over by the Office of Information of the Government. Taiwan operates four eavesdropping stations, one in Shu Lin Kou north of the island, two in Matsu and Kinmen, in the Taiwan Strait facing the Mainland

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Coast, and one in Chiangmai, north of Thailand.

India: Situated at the cross-roads of China, South-East Asia, the former Soviet Union, and the Islamic world, India occupies a strategic location for electronic intelligence. Soon after its independece in 1947, its independence in 1947, India created an Intelligence Bureau (IB) modeled after the Intelligence Bureau created by the British in the Nineteenth century to suppress the murderous Thuggi cult. Since 1947, the Indian intelligence services have been active in Pakistan, China, the Himalayan States, and Sri Lanka. However, the inability of the IB to anticipate the aggressive intentions of China before the Sino-Indian war of 1962, or the insurrection of Mizoram in 1966, led Prime Minister Indira Gandhi to separate the functions of internal and foreign intelligence. Subordinated to the Ministry of Internal Affairs, the IB became responsible for internal security, while a new foreign intelligence service was created, the Research and Analysis Wing (RAW). The Research and Analysis Wing (RAW) was set up on September 21, 1968 by Rameghwar Nath Rao, who became its first director. However, Rao resigned in 1984, following the assassination of Prime Minister Indira Gandhi, and was replaced by Girish Chander Saxena. RAW was renamed Research and Analysis Service (RAS) in 1990, and employs about 7,000 staff. It is located at Lodi Road, Vasant Vihar district, in New Delhi, and is responsible for foreign strategic intelligence, reporting to the Prime Minister's Cabinet Secretary.

The various Indian intelligence and security services are coordinated by the Joint Intelligence Committee (JIC) created on August 24, 1990. However, this boy has had only one meeting in 10 years, on October 5, 1990, precisely. The JIC is headed by the Cabinet Secretary, and includes representatives of the Ministry of Defense, of the Interior, and of Foreign Affairs, as well as representatives from the IB, the RAW/RAS, and the military intelligence. The daily management is directed by the Secretary of the JIC, while decisions taken by the JIC are approved at ministerial level by the Steering Committee which meets frequently. The Office of Special Operations is responsible for clandestine operations, mostly outside, but also inside, India. The Aviation Research Center (ARC) is responsible for aerial electronic and imagery intelligence.

The ARC relies on two bases: electronic intelligence at Charbatia built with US assistance in 1962-63, on the north east coast, and at

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Sarsawa, north of Delhi. There is a Special Services Office in charge of training intelligence agents. The security and intelligence services are also supported by organizations subordinated to different ministries and the police. The National Security Guard (NSG) was originally created as an anti-terrorist unit engaged in the operation against the Golden Temple of Amritsar. Later on the NSG became responsible for the security of prominent personalities and government members. A Special Protection Group is responsible for the security of the Prime Minister. Finally, the Directorate of Revenue Intelligence (DRI) is responsible for economic and financial intelligence. In the early 90's, the total budget of the Cabinet Secretary, the RAW/RAS and the IB was estimated at $270 million. RAW/RAS is in charge of clandestine activities, electronic eavesdropping and disinformation. It was involved in the "liberation" of East Pakistan in 1971 and for the establishment of training camps in Tamil Nadu and the north of India for Tamil rebels in Sri Lanka, who later became independent of Indian control. It might also have been involved in unrest in Sind, Pakistan.

Due to its strategic location, India is of importance to US information gathering, which installed an eavesdropping station on the north-east coast in Charbatia in 1969 (to replace the earlier base in Peshawar, closed by Pakistan) as well as telemetric stations to monitor Chinese missile launches. Subsequently, in the early 70's, the Soviets also installed eavesdropping stations in Bhatinda and Ludhiana in the Punjab for the surveillance of Pakistan and China. All activities of electronic interception are coordinated by the Joint Cipher Office, subordinated to the Ministry of Defense.

Pakistan: Information-gathering by India's arch-rival, Pakistan, is organized around a civilian intelligence service, the Intelligence Bureau (IB), subordinated to the Prime Minister, and a military intelligence service, the Inter-Service Intelligence (ISI). The ISI was created in 1971 following the Indo-Pakistan war, and may have contributed to the replacement of Ali Bhutto by General Mohammed Zia-Ul-Haq in 1977. During its 11 years of operation, under the direction of Lieutenant-General Akhtar Abdul Rahman, the IST became pivotal to Pakistan internal and foreign policy. In December 1988, Benazir Bhutto terminated the support given by the ISI to the Afghan resistance and the resistance fighters in Kashmir. In May 1999, she replaced the head of ISI, Lieutenant-General Hamid Gul,

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by Lieutenant-General Shamsur Rahman Kallu, who had earlier resigned in 1987 in opposition to Mohammed Zia-Ul-Haq. The demise of Benazir Bhutto's government in August 1990 led to a purge in which 50 officials were dsimissed from the IB, and M. Nour Leghari, the IB Chief, was replaced first by Zafar Iqbal Rathore, then by General Ahmed Imtiaz in 1991. At the head of ISI, Lieutenant-General Kallu was replaced in August 1990 by Lieutenant-General Assad Durrani; but in April 1993, following the fall of the Nawaz Sharif government, the IB Chief Ahmed Imtiaz resigned, and in May 1993, Javed Ashraf, a close associate of President Ishaq Khanhead was made head of ISI. Today the ISI is still responsible for clandestine operations both inside and outside Pakistan. The support given by the ISI to the Afghan resistance has been estimated at $1 billion, under the direction of Lieutenant-General Hamid Gul. They supported the Islamic faction Pachtoon of Gulbuddine Hekmatyar in the latter's struggle for power in Afghanistan, although since 1992 the Pakistan Foreign Ministry has officially withdrawn its support from Hekmatyar as a measure of appeasement. Nevertheless, in 1993 Pakistan was reported to be training 10,000 rebels in Afghanistan, and rightly or wrongly the ISI has been blamed of for terrorist acts in India, such as the March 12, 1993 bomb explosion in New Delhi (13 bombs over 2 hours 30 minutes, resulting in 317 casualties). This terrorist act was said to have been executed by around twenty 20 agents from ISI, trained in Islamabad between February 18-28, 1993.

Russia: Without going into the organizational details which were fairly well known to the West during and after the Cold War, it is worth mentioning the late Summer 1992 agreement between Russia and China, providing for collaboration of the GRU (Glavnoe Razvedivatel'noe Upravlenie – Intelligence Principal Directorate) and the SVR Rossi (Sloujba Vnechnei Razvedki Rossiyskoi Federatsii — Service of Foreign Intelligence of the Russian Federation) with China. The GRUs 6th Direction is responsible for the collection of electronic intelligence at its HQ at Khoroschevskoye Schosse together with the GRU HQ. It operates a number of eavesdropping stations on CEI territory and elsewhere, which transmit their information to a analysis center located near Naro-Minsk, south-east of Moscow. Its main station within the CEI is located at Klimovsk, near Moscow), with 2000 employees, including 400 at the GRU. The SVR Rossi

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maintains an important eavesdropping station in Teheran, which covers Azerbaidzhan, Afghanistan, Pakistan, the Sultanate of Oman, and the United Arab Emirates. Clearly for China, Russia is an important instrument in gathering intelligence on the European front as well concerning the Arab and Central Asian territories, which somewhat illustrates points made earlier.

Entering the Space Age

Finally, we have entered the Space Age, and one day in this 21st century we will land men on Mars (making sure our spacecraft are equipped with devices to prevent the Martians from stealing the radio, as they did last time!). But regardless of the significance of sending a manned mission to Mars, back on Earth Suborbital Space, Reusable Launch Vehicles will cut by one then two orders of magnitude the cost of lifting a pound in orbit and beyond. New technologies, in which the US, then Europe and Japan, still lead today (but one can bet China will eventually catch up, after it has sent a manned rocket in space), will provide reliable and economical space transportation systems, thereby guaranteeing routine access to space for all commercial, civil, and military payloads. And because East Asia will remain a significant economic area, as also will some other parts of the world, these dual civilioan-military-use technologies may fall into the wrong hands in some areas and pose new security challenges. Therefore there is likely to be some kind of Malacca Straits style piracy in Space and terrorist acts by rogue states will require stiff counter-measures beyond anything which could have been done in ballistic missiles defense. To deny rogue states the access to technology and equipment has not so far been so successful that one may expect better efficiency without a brand new set of counter-measures. Draining the proper brains, and not losing them to the adversary, will also be a crucial element.

While all this seems evident, the speed at which events are taking place will make present defense arrangements obsolete. Japan is not yet ready militarily, financially, or in terms of human resources to support an adequate defense on its own. It still needs the US, particularly in view of recent threats, and it is up to the two governments to maintain a partnership for a realistic period of time, perhaps for another one or two decades. It is likely to be one of the most important duties of the next US Administration to re-engineer

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its partnership with Japan in the light of recent developments, starting with damage control and leading to a system of balanced co-operation, which was not always the case in the '90s. It remains to be seen what diplomatic and economic leverage Japan could manage to deploy *vis a vis* China if confronted by a real North Korea or Taiwan crisis. Japan's economic restructuring is likely to enable it to maintain a significant regional and global influence, with a strong leverage *vis a vis* China, despite still experiencing substantial difficulties with its bankrupted public sector – while a possible re-balancing of triangular relations between the US, Japan, and China might further a less lethal agenda. Clearly as well, both India and Russia would have to be included in any larger framework of balanced interests. Developing cross-cultural and business exchanges, sorting out perception gaps, and improving mutual respect and understanding might be worth the effort as a starter. But as the situation stands, rather than paving the way for going to Mars as a united human race, any tentative attempts at appeasement could well prove be reminiscent of the Munich accord.

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Third World Microfinance: Challenges of Growth and Possibilities for Adaptation

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Beginning with the Bangladesh's Grameen Bank in the 1970s, microfinance enterprises have proliferated to nearly every corner of the globe, the paramount goal being alleviation of global poverty. Like all new techniques, however, the revolution brought about by microcredit expansion has left substantial room for refinement and several new challenges have emerged. This paper has two objectives. First, it investigates how this growth might jeopardize the effectiveness of microenterprises. Second, it examines how different forms of organization and objectives of credit union programs can offer different institutional arrangements that may be useful in the framework of larger microlenders. One specific program, a network of self-managed village banks known as "*cassies villageoisie*" in the Dogon region of Mali, is examined as an illustration.

Key Words: Global poverty, Bangladesh's Grameen Bank, Bolivia's Banco Sol, microcredit, microenterprises, microfinance, Third World finance, Third World credit unions, village banks in Mali.

I. Introduction

Microfinance has been hailed as one of the greatest innovations in attempts to alleviate poverty in the Third World in recent history. Breaking the debt-cycle and economists' preconceptions of poor entrepreneurs has not been easy, but, beginning with the Grameen Bank in Bangladesh in the 1970s, microenterprises[2] today have proliferated to nearly every corner of the world, including developed countries such as the United States. The effectiveness of these

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[2] In this article the authors use the prefix "micro" to refer to small-scale financial transactions.

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microenterprises has been a result of their willingness and ability to find ways to interface with the rural community and its informal economy. The mission of the typical microlender has centered on providing access to credit for underprivileged groups that might not otherwise have the education or collateral to obtain a loan, or whose needs are for loans too small to interest traditional lenders. Microlenders substitute group obligations and social pressures for capital, usually with startlingly good results. Many microlenders supplement this "character-based lending" policy with lending programs that target specific social outcomes, such as increasing women's financial resources and personal autonomy. The rapid growth of microlenders such as the Grameen Bank demonstrates that there exists an enormous need for the type of loans provided by microlenders.

Population growth and concomitant poverty seem to demand that emphasis be placed on expanding the number of microentrepreneurs, but there is some question whether this emphasis is good for microcredit programs. Paradoxically, the success of microenterprises working in small communities and their desire for expansion usually result in tradeoffs which, if not managed carefully, will jeopardize a microlender's social mission and financial viability. The legal environment and variations in local political arrangements may impede or even reverse economic and social gains. As microcredit programs expand their clientele, and regional and ethnic diversity increases, it becomes more and more difficult for a microlender to pay attention to borrowers' case-specific needs and characteristics.

Policies that are pragmatic when working with one group may prove unworkable with others. Neglect of these socio-cultural variables can hinder outreach programs, and might well result in failed loans or lackadaisical participation among borrowers. Amidst these shifting political and social variables, expansion itself strains a microenterprise as donor support proves inadequate and a microlender, usually adapted to working in the informal sector, is forced to seek commercial capital. To acquire this financial capital, a microlender is pressured to formalize banking procedures, reduce the amount of resources spent per borrower, and adopt a profit-oriented business strategy, all of which seem to deviate from microcredit's original mission to target disadvantaged borrowers by maximizing informality and ease of access. Success, it has turned out, may be the single greatest difficulty in maintaining the financial viability and social

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focus of microcredit organizations in the future.

The primary purposes of this paper are twofold. First, the succeeding section will examine the tradeoffs between the social mission and quantitative growth of these non-governmental entities, using two large-scale microlenders: the Grameen Bank of Bangladesh and Banco Sol of Bolivia. Here we shall identify some of the legal, social, and political factors that become more difficult to manage as microcredit expands. These problems manifest themselves in several ways: political tensions at local-national levels, difficulties in maintaining a steady client base while expanding, and managing the transformation of a small microlender, usually a non-profit NGO, into a full-fledged financial institution with all the requisite attention paid to profitability. Further, as an illustration, we will discuss the institutional framework of a credit union network in Mali that has its origins in France. Known as the *cassies villiageosie* and functioning in the Dogon region of Mali, we will explore how smaller, more autonomous programs have avoided some of the problems encountered by larger microlenders. While it is not our contention that such credit unions should be considered an alternative to larger, expansionoriented microenterprise programs, we suggest that the localized nature of programs such as the *cassies villiageosie* demonstrates that large microcredit programs may be adapted so as to emphasize more autonomous control of their branches if they are to create genuine financial institutions for the needs of the poor while maintaining financial solvency.

II. Political, Socio-economic and Institutional Challenges of Microcredit Growth

This section focuses on the potentially negative aspects of microcredit growth pointed out earlier. Not every microlender faces each of these problems, and even when they do these difficulties may take a number of forms. Presently, we will outline some of the more common problems and group them into four areas. We will examine how as a microlender grows, it begins to press against a greater number of legal constraints preventing the expansion of services and becomes a more likely target for national governments seeking to accomplish their own political ends through the regulation of financial markets. We will also discuss how microenterprise programs can perpetuate a tug-of-war in the local political economy as a body

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of increasingly organized poor workers are met by elites anxious to maintain their status. Beyond politics, growth for any institution tends to decrease the individualized attention given to clients. Then we discuss several social and cultural variables that must be taken into account and how "dropping out" from microenterprise programs may be driven in part by the inability of large microenterprise programs to pay adequate attention to these factors. Finally, microlenders focused on growth are drawn to seek greater and greater amounts of capital for expansion, forcing many microenterprises to seek commercial credit. While necessary to create a genuine, self-sustaining financial sector for the poor, the shift to commercial credit gives rise to social conflict and competing values that must be managed carefully if a microlender's social mission is not to be sacrificed.

(1) Political and Legal Components of Microenterprise Expansion

Microcredit operations must take into account several non-economic variables to function effectively in the local informal markets that are their targets for developmental credit. Political institutions, both local and national, represent one way that a microlender's growth introduces new policy challenges that must be adapted to. The negative influences of government policy range from simple interference to outright obstruction, but in any case a growing and successful microlender must be conscious of its changing profile. The manner in which a microlender is perceived has important substantive effects on how a microlender may develop. A microlender may be forced to make significant institutional changes simply because it has grown beyond a somewhat arbitrary legal boundary. For example, many informal lenders may not legally introduce badly needed savings programs and higher interest rates for their clients (Chao-Beroff 102; also see Adams). In order to provide savings programs, organizations such as the Association of Solidarity Groups in Columbia or Banco Sol (then called PRODEM) in Bolivia were forced to take somewhat drastic measures to make continued expansion compliant with the law (Otero 23). As we shall see, these changes in legal status carry with them significant implications for the institutional mission of microlenders and introduce formal requirements for compliance with financing and capital regulations.

Other national policies that limit legal and physical infrastructure

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for the marketing of goods, endorse protectionist trade policies, or levy taxes heavily on the informal sector may also weaken microcredit programs despite a purportedly pro-microenterprise government (See Adams). A government may also seek "either to penalize or to reward specific segments of the population" through the financial system (Kane 169). The higher profile of larger microlenders makes them somewhat more vulnerable to deliberate uses of these types of policy. Microlenders must therefore cope with increased interference from government, whether it comes indirectly through economic policy or directly from the government interested in using a microlender to accomplish political ends.

In more extreme cases of social and economic displacement, government reactions may flare into intentionally disruptive behavior or even violence. Economic cooperation in the context of political struggle, as in the Chiapas region of Mexico, is extremely difficult, since increases in economic autonomy can quite easily incite additional discrimination against the poor. Bishop Samuel Ruiz, in an interview with the *Journal of International Affairs*, expressed such suspicion aroused by expanding cooperative programs in Chiapas (see Ruiz). Large, well-financed coalitions such as the Rural Association of Collective Interest (ARIC; the Association Rural de Interes de Collectiveo) were perceived as "a formidable challenge" to the existing power structure. Ruiz specifically linked the increased economic power and its concomitant increase in indigenous organization as the primary motivations for government-sponsored "violent tactics to intimidate indigenous communities" with the specific aim of dividing ARIC into smaller organizations (Ruiz 91). Not all cases of growth find these extreme circumstances, but all growing microlenders who impact their communities will unavoidably be influenced in return. From all of these cases it can be seen that there is a great deal of variation in the political climates in which microlenders must work, but in many cases growth can by its very nature force significant adaptations to a new political reality.

(2) Microcredit Growth and the Balance of the Local Political Economy

Most microlenders naturally focus primarily on the poor who are their potential clients and by the same token tend to incorporate the rest of the local community into the bank only as much as is absolutely necessary. Such microcredit programs implicitly create a

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division between those who are expected to work with the bank and those who are not. This small gulf tends to widen as a program succeeds, to the point where the local elite tends to adjust its position in the community to prevent possible encroachments. This tension in the local political economy forces the elite to adapt, but not to change. Studies by Wahid and Rahman of several branches of the Grameen Bank provide a picture of how the Grameen Bank pushes the rural economic swing in Bangladesh (Wahid-Rahman 165). The traditional economy in Bangladesh, as in much of the Third World, is defined by a patronage relationship between the elite and the poor, the former controlling much of the rural land and wielding considerable political influence and the latter surviving largely through dependence upon the elite's support.

The Wahid-Rahman study verifies that these patronage relationships were weakened, if not displaced, by changes in economic status; the number of villagers enlisted in "vulnerable group" feeding programs was significantly lower than the average for the population (WahidRahman 163). The Grameen members dependent upon "recommendations" from the Union Parshad (UP) leaders (UP is the lowest tier of local government, with members elected by the public) and, further, the Grameen voting block did not "depend on the directives of the rural elite for voting" (Wahid-Rahman 163). Most UP leaders were outwardly approving of the Grameen Bank's efforts for easing their financial strain and encouraging "responsibility" among the local poor. However, in some instances, the local elite openly admitted that an independent organization of the poor threatened their power base (Wahid-Rahman 165). In cases where the status of the local elite might have been directly threatened, as when Grameen members began to elect some of their own to UP positions, even those among the elite otherwise friendly to the bank were reluctant to work with independently-elected Grameen members as their political equals (Wahid-Rahman 170).

As the Grameen Bank moves the community toward economic independence for the rural poor, the rich feel encouraged to restrict this growth to the extent it interferes with their preeminence in the community. The economic and political adaptation of microcredit in rural Bangladesh brings with it a concomitant adaptation of the local elite to compensate for this development. Local businesses, through a variety of interconnected markets for housing, agricultural products,

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seeds, and credit, etc., provide more than ample opportunity for the elite to adjust and neutralize changes brought about by microcredit lending. For example, before the arrival of a Grameen Bank branch, one local elite might have controlled much of the land, the supply of agricultural credit, and the patronage system. An expanding pool of small entrepreneurs in a relatively isolated market will inevitably begin to pressure the traditional economic domain of the local elite. Thus, as an illustration, competition in interest rates from a subsidized bank might persuade a local landlord to reduce interest rates on his loans as well, but gains for the poor from lower interest rates might easily be offset by the elite through higher rents or political retribution.

The Grameen Bank tends to accomplish its objective of bringing the local poor and disenfranchised into organized bodies of entrepreneurs, sometimes resulting in anticipated and unanticipated consequences in the local political environment. Added growth of microenterprises widens this division within the community and exacerbates the cycle of conflict between traditional and non-traditional sectors of the local economy, while providing little opportunity for a genuine synthesis of goals between the rural poor and rural elite. As microcredit programs expand, added organizational and economic autonomy on the part of the poor is likely to prompt the local elite to take steps to compensate for the undesirable effects of rural development. Thus, microcredit programs should be conscious both of the extent to which their policies arouse social conflict between the rich and the poor and of how shifts in power will be met with responses from the elite.

(3) Socio-Cultural Variables and the "Drop Out" Phenomenon

The success of microcredit programs has largely depended upon the process of "character-based" lending, which essentially means reliance on social pressures or peer-monitoring in place of collateral when extending loans. However, as microcredit expands, it becomes much more cumbersome to pursue "character-based" lending, because of increased social diversity and increased pressures to streamline lending policy. Building an effective peer monitoring group requires that borrowers be carefully screened and educated so that they might be prepared for the experience of being an entrepreneur.

Shifting cultural values from region to region and even within

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social sub-groups also carry important implications for the nature and importance of microcredit. The influence of credit availability on a woman's right to affect internal and external family decision-making provides an example of how a uniform credit system may unwitting provide neither uniform nor optimal results. Here we explain how achieving the goal of improving the status of women requires a great deal of attention to each borrower's specific cultural, familial, and personal circumstances. While one of the most important goals of socially-oriented lending may be perceived by some as a way to improve the political and social status of women through economic independence, various studies of the relationship between resources and decision-making power within a marriage have shown that changing a woman's share of household income may do very little to "emancipate" a woman (Safilos-Rothschild 181, Bennet 108).

The connections between independent employment, resource accumulation, and decision-making power in a marriage are by no means direct or uniform among women of any nation or culture. Improving intra-household resource allocation and enhancing women's decision-making status require that loans take into account the age, familial situation, geographic location, and fertility status of each woman (Mizan 133). Rural-urban separations significantly altered credit outcomes in Bangladesh, where it has been found that the borrowers in rural Patuakhali remained more in line with traditional family structures than was the case in urban Chittagong (Mizan 141). The presence of extended family in the same household as a married couple was another factor that influenced overall decision-making power. The age of a borrower was critical, since age brings with it increased influence on internal decision-making; thus, older women capitalize upon the opportunity for a loan by harnessing this autonomy (Safilos-Rothschild 177, Mizan 140). Religious traditions remain among the most dominant factors influencing a woman's decision-making power, particularly in cases where social custom is reinforced by variable personal interpretations of faith, lending credence to the argument that "normative beliefs about authority account for more variance in power than pragmatic resources " (Mizan 134). In the context of Bangladesh, traditional cultural practices, especially women's seclusion, either by "purdah" or by other customs restrictive to women's mobility, have important implications for potential female borrowers. The specific type of

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business sought by a female borrower and the arrangements for the management of that business depend heavily on personal factors such as these.

A woman's husband and other relatives represent another important variable when determining how best to help a microentrepreneur to succeed. Husbands, fathers, and even mothers may do much to encourage the success of a female borrower, through flexibility in their own lifestyles and expectations. Since an improvement in a woman's status changes her relationships with those around her, microlenders who fail to consider and accommodate the flexibility or rigidity of a woman's family would engage in a significant omission (Safilios-Rothschild 180). Though this requires a great deal of attention and flexibility on the part of the loan official that may prove costly, neglect of these variables invites inappropriate loan design and ultimately may discourage interest in the project as a whole. Indeed, some evidence suggests that more and more women are "dropping out," partly because of inadequate attention to these factors (see Karim).

Given such factors to consider in character-based lending, the fact that expanding institutions are under continual pressure to reduce costs per loan means microlenders are in a difficult bind. Accelerating the loan process, which sometimes comes at the expense of attention paid to the specific needs of borrowers, not only reduces the effectiveness of each loan disbursed, but also erodes the client base so diligently nurtured by a microlender. Since the costs of opening and training personnel for new bank branches are significant for microcredit programs, microlenders can ill afford to neglect borrowers already recruited. In the context of the Grameen Bank, analysts have identified "dropping out" (leaving a lending group early) as a growing problem (Karim 1998). While Grameen continued to expand membership throughout the 1980s and into the 1990s, the number of members quitting the program consistently outpaced the numbers joining. Grameen in its infancy in 1985 experienced only a 4.4 percent dropout rate; however, as the program continued its phenomenal expansion, the number of borrowers quitting the program ballooned to 15 percent in 1994 (Karim 271). As Karim points out, the important trend is that while Grameen has continued to grow, "during the period 1985-1994, the total increase in drop-outs was more than three times higher than the increase in membership"

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(Karim 271).

About two-thirds of members have tended to leave the program by the third year, far earlier than the Grameen considers optimal (Karim 276). Childbirth, business failure, and familial difficulty are all factors, though the largest group (62%) of dropouts have done so "willingly" (Karim 276). Apparently, even successful banks such as the Grameen have considerable difficulty sustaining interest in the program over time, despite the fresh recruitment of members. However, since recruitment costs more on the average than retention of membership, a bank that favors expansion over membership maintenance in the long run hinders its financial viability. Each borrower presents a lender with dozens of case-specific variables such as gender, religious practices, education, family situation, locality, etc., all of which must be taken into account in order to maximize the value of each loan. Failure to do so threatens the social mission of many microcredit programs and may result in a shrinking clientele for the bank.

(4) Economic and Institutional Trade-Offs

In addition to the variability of the non-economic factors mentioned earlier, growing microfinance institutions are faced with numerous tradeoffs between what is, or what is perceived to be, their institutional duty and their financial necessities. The need for additional capital to finance expanded services and increased overall borrowing requires many microfinance institutions to seek commercial credit. Banco Sol in Bolivia provides an excellent example of the factors that lead to such a decision and the difficulties of balancing competing values. Banco Sol's predecessor, the Foundation for the Promotion and Dissemination of Microenterprise (PRODEM) was legally required to rely upon returns from loans and donor funding which could sustain mild growth and cover operating costs, but which could not finance considerable outreach programs. As a non-governmental organization, PRODEM was unable legally to offer savings deposit services to its clients. However, increasing demand for full financial services from its clientele was undeniable. Without adequate savings programs, even those with successful microenterprises were vulnerable to inflation, which hovered at about ten to twenty percent per year (Glosser 232). Additionally, without savings facilities, entrepreneurs were forced to keep cash in their house or

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business where losses due to thieves or family members were more likely. As a part of its mission, PRODEM felt it essential to address the victimization of the poor in Bolivia by high inflation and a lack of access to reliable savings institutions. PRODEM was forced to acknowledge, like many other programs, that its status as a NGO was too restrictive legally and that to provide necessary services it must "graduate from the well-intentioned but limited level of charity and grants to full participation in the formal capital markets" (Inter-American Development Bank 1998).

By deciding to transform PRODEM into Banco Sol, the NGO took a step that at once opened new opportunities to provide needed services and introduced new pressures that threatened to force the Bank away from its focus on small loans to poor entrepreneurs regardless of social or educational status. By accepting capital from profit-oriented banks, Banco Sol was required to shoulder a much higher cost for the credit it provided to the poor. During this squeeze period, when the Bank was most dependent upon start-up capital, savings were low and transaction costs were increasing with growing formalization and changes in personnel. Banco Sol was forced to make some difficult institutional decisions, such as the counter-intuitive step of increasing interest rates. PRODEM, as a philanthropic NGO, emphasized the availability of subsidized credit over profit for the organization. Mixing the profit-motivated increase in rates with the institutional culture still tied to PRODEM was, in the words of one executive, "like mixing oil and water" (Glosser 247; also see Gonzalez-Vega 130). In the case of interest rates, the change was more of a challenge to institutional culture than to Banco Sol's borrowers, since increases in interest rates are typically less important to potential borrowers than the simple availability of manageable loans, and since the increased rates made savings programs more attractive (Otero 20).

Another important problem for Banco Sol came in the form of policy-dictated increases in loan size. In order to combat increasing transaction costs, Banco Sol decided in some cases to intentionally raise the size of the average loan, increasing the bank's revenue per loan without significantly increasing staff time or administrative costs (Gonzalez-Vega 151). Though Banco Sol eventually managed to reduce the loan size once the transition was nearly complete and costs had somewhat declined, microcredit programs that attempt such

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transition may not always be so lucky. If productivity gains during this transition period "run out of steam" before self-sustainability, the organization may be forced to abandon its purpose as a small lender or go out of business altogether (Gonzalez-Vega 157). Indonesia's Bank Rakyat Unit Desa system has identified similar worries that "pressures for growth, expansion of savings, and short-term profitability could overextend the human resource capacity of the organization and dislodge the system from its foundation – character-based, progressive lending" (Boomgard 220). Banco Sol's requirement that all potential borrowers already possess a business that they have run for a year or longer also protected the organization from some of the outreach costs that other microlenders face. Banks in more tenuous environments, working with less established entrepreneurs, may have a much more difficult time navigating the transition to a true banking institution. Expansion for a microlender poses an interesting paradox: to increase outreach and improve services, an NGO must forgo its status as a philanthropic entity and subject itself to market pressures which in turn may drive the new bank away from the poverty-oriented goals which induced the transition in the first place.

Connecting the microlending organization, often the progeny of a donor-driven, non-governmental organization, with the highly profit-oriented, risk-sensitive commercial banking industry requires the microlender to accept and reconcile a number of seemingly contradictory premises. Commercial lenders in the past have refused to provide loans to the poor in part because of "informal barriers," potential borrowers having little documentation, little collateral, and little education. Microcredit, through collective borrowing schemes and increased education and oversight, has circumvented those barriers. When attempting to take commercial capital to underdeveloped areas, microlenders must still ensure access to credit for patrons with all the usual handicaps while providing detailed information about the composition and performance of their loan portfolio. Informal organization and adaptable credit schemes that are essential to the success of microcredit are forced to coexist with the need for larger, more hierarchical structures of management. Redefining the corporate culture to bring the profit obligation and social orientation together often pits these competing interests against each other. Perhaps the most dangerous step on the path of success of a microlender is the possibility that the organization will fail to make

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the necessary adjustments to its orientation and through its own rigidity fall apart under the pressures of sustained growth.

III. Organizational/Institutional Remedies: The Case of the *cassies villageoisie*

Having examined the ways in which growth may strain microlending institutions, it may be useful to examine some institutional arrangements that offer potential remedies for the dangers. In this section, we shall examine the *cassies villageoisie* program (literally "village coffer") in the Dogon region of Mali and demonstrate how smaller, more autonomous self-managed programs have avoided some of the problems encountered by larger microlenders. First, we will look at the structure of the *cassies villageoisie* on the national and local levels to provide some context as to how their arrangements differ from other microlenders. Second, we will look at how the program of the *cassies villageoisie* that prioritizes local management changes the nature of the costs involved in expansion, helping to sustain the program and promote self-reliance. Then we look at how social climate and the *cassies villageoisie* are converged in the local management, forcing this lender to work within local customs and social restraints while requiring the local community to abide by the rules established in the *cassies villageoisie* charter. Finally, we briefly appraise the local and national politics surrounding *cassies villiageosie*, examining how the network of local branches is unified and represented at the national level to formalize the process by which the government and microlenders negotiate their relationship with each other.

(1) Evolution of the Cassies Villageoisie

Though the large microlenders have been successful beyond all expectations, innovation is necessary to continue the process of improving the poor's access to financial services. The problems faced by large microlenders are in many ways related to increased transaction costs, seeking commercial credit, variability of social and cultural factors, and friction with the traditional political climate, all of which impede the proper functioning of individual branches providing informal credit. An interesting set of alternative priorities found in the local credit union or village bank may provide some guidance for modern microlenders embarking on the rocky road of sustained

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growth. Placing emphasis on local control and access, rather than on cheap credit and expansion, may actually help microlenders achieve their goals. The *cassies villageoisie* is such a program. It helps to demonstrate the potential of prioritizing localized self-sustainability and governance over the long run. Begun by the French-operated Center for International Development and Research (CIDR), this program evolved as an interesting combination of traditional village bank and modern social lending practices. Like the Grameen Bank, CIDR is an independent lending group that surveys rural areas and then promotes involvement by local village members who become part of a larger network of village banks. Also like Grameen, CIDR emphasizes education and collective responsibility as essential ingredients of its lending. Unlike Grameen, however, all fifty-six offices of the cassies villageoisie aim for local control and local innovation. Local ownership, management, and governance are all requirements of a fully developed institution; the participants are required eventually to take the helm of the program. As the villagers are trained, this NGO gradually removes its direct involvement, leaving issues of recruitment, services, regulations, and discipline in the hands of the village.

(2) Trade-Offs in Credit Expansion and Transaction Costs

Credit union management found in programs such as Cassies Villiageosie might offer some solutions to the transaction-cost explosion that is faced by many conventional microlenders. Making use of volunteer resources and time can help to dramatically reduce the costs per loan. The CIDR found that approximately 1.8 million French Francs (FF) were saved over ten years by volunteer management and construction activities (Chao-Beroff 93). As the program expanded, additional volunteers were recruited as needed, helping to minimize cost increases associated with expansion. Achievement of this type of community involvement was not easy, particularly in the Dogon region of Mali, where the social and economic handicaps were considerable (Chao-Beroff 87). As a result, the gains of long-term community management, by way of human resources and time, are acquired early on. The program took a vast amount of time to establish compared with Banco Sol or Grameen – over ten years to establish a network of fifty-six virtually self-sustaining branches (Chao-Beroff 87). Initial start-up costs were estimated to be about

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FF18 million, but reduced to FF1.6 million through donations of time and labor from the community (Chao-Beroff 94). The choice to endorse community-oriented development was a choice between the expenditure of different resources; the CIDR accepted longer start-up periods and high initial costs in the interest of providing lower costs in the long run and increasing self-sustainability. The expense in time and money, which was considerable, is perhaps best justified in a political and social sense, since the program's paradigm helps to unify the community through helping the poor while avoiding some of the obstacles faced by large proliferating microlenders.

(3) Social Implications of Community-Based Lending

The structure of the *cassies villageoisie* offers the opportunity to integrate the financial institution into the local community, promoting unity and increasing cultural sensitivity. Credit unions have traditionally adopted a holistic lending policy that embraces family and business life at the same time, something larger banks such as the Grameen have only begun to do. Since microenterprises are not fully independent businesses, but usually are integrated into the home and family structure, successful programs must recognize that "demand for credit in such situations is inevitably a mixture of family and enterprise needs" (Magill 147). Reduced transaction costs and flexibility in developing regulations allow the *cassies villageoisie* to take the time to develop appropriate loans and to improve character-based review of applicants. For banks being directed by policies developed outside the community, it can be difficult to achieve the type of familiarity with the culture to realize the benefits gained by village banks such as *cassies villageoisie*. As Cernea explains, "the underlying principles of social structure ... are buried in cultural practice and are not necessarily articulated conceptually by members of a cultural group; yet these principles have to be understood and taken into account when development interventions are designed and implemented" (Cernea 323). Therefore, while microlenders may find it difficult simply to order branches to increase social awareness or attention to subtle cultural factors, a shift in policy to allow for significantly greater local administration and networking might yield significant improvements in service.

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(4) Difference in Political Interfaces

Credit unions, particularly those financed by NGOs, interface with the established power structure in a different way from the activist programs of microlenders such as the Grameen Bank. In the case of the *cassies villageoisie*, village ownership of the bank provides a means by which all members of the community are working within one political framework of their own design. All village members agree to a common code of regulations that may be altered annually. As a result, the village bank "submits to the rules and values of the village" and "the managers ... are appointed by the village and hence accountable to it" (Chao-Beroff 95). Thus the bank's authority is merged with the existing social institutions and the bank is therefore freed from conflict with elite social institutions For example, one *cassies villiageosie* found that it had become dominated and stagnated by an authoritarian chief. Villagers made the union of other banks aware of the situation, and independently arranged a meeting of neighboring chiefs to "reason with [the chief] and convince him that [he] should let the board perform its functions" (Chao-Beroff 96). By incorporating, rather than resisting, the cultural norm in this case, the project was able to avoid serious confrontation.

Finally, members of the Dogon region of Mali have a means to influence national political pressures through an organization known as DNACOOP, a board responsible for representing the *cassies villiageosies* before the various branches of the national government. This committee provides a liaison with the national government to protect the *cassies villiageosies* from "other decentralized financial administrations and politicians" (Chao-Beroff 101). While the members may not escape tensions arising from changes in economic and political prestige associated with the bank, these tensions are, by the very design of the program, more likely to be resolved in a manner that perpetuates the bank and preserves local cultural values.

IV. Some Concluding Remarks

Microcredit programs have taken advantage of a lending system previously ignored by most commercial institutions. The very success of these programs poses a number of challenges to their continued viability. Growth carries with it a greater burden on the institution so as not to lose sight of the peculiar political and social characteristics of specific areas and borrowers. Growth in borrowers and in

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services often pushes an institution to accept a closer relationship with commercial institutions, and less donor funding. The increased flexibility of commercial credit and savings programs comes at the cost of philanthropic flexibility, however, and trade-offs in loan size, outreach, and program quality all must be balanced against new financial obligations and the increased formality of procedures. These changes, while holding out the possibility of improved outreach and improved services, also hold the potential to undermine the purpose of an institution and push its focus away from the most needy individuals. Coping with these paradoxes of growth, which are far from insurmountable, is a serious challenge to microcredit programs that must neither sacrifice the case-specific orientation of an NGO, nor the economic logic of a commercial institution. The experiences of more localized credit unions, such as the *cassies villageoisie* of the Dogon region of Mali, which unite lending policies and open the doors of management to local borrowers, offer a number of possible innovations for their larger counterparts in order to reduce the expense of loans and improve services.

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Impediments to Competition: The Economic Effects of Calendar Marketing Agreements

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The business, economics, and legal literature contains little evidence on the economic impact of the vertical restraint known as Calendar (or Cooperative) Marketing Agreements (CMAs). Vertical restraints involve arrangements that restrict the price, other terms, and other forms of behavior between nonvertically integrated firms operating at different levels in the distribution chain of a product, e.g., between a manufacturer and its wholesaler or a wholesaler and its retailers. This paper conducts a further analysis of CMAs to see if competition is harmed by these exclusivity arrangements. While the paper examines statistically just one (settled) case, the case is fairly typical. The statistical results indicate that exclusivity in the CMAs in question successfully harmed the vigor of competition in several ways. This conclusion is consistent with the fact that the Department of Justice in 1993 rescinded its 1985 *Vertical Restraints Guidelines*, which claimed that vertical restraints were generally procompetitive, as not being consistent with case law, mainstream economic theory, and factual analysis.

Key Words: Calendar (or Cooperative) Marketing Agreements (CMAs), Vertical Restraints, Exclusivity, Interbrand Competition, Intrabrand Competition.

A basic principle of antitrust laws is that they should promote, protect, or preserve competition, not competitors. This paper examines a particular market constraint that can be harmful to

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[1] The author is Distinguished Professor and Dorsey Chair Holder, Department of Economics, The University of Georgia. He is indebted to Dr. Albert L. Danielsen, Dr. David B. Robinson, and the lawyers and economists on both sides of the case described in this paper for sharing their considerable wisdom with him. However, any errors in analysis, estimation, interpretation, and the views expressed are the responsibility of the author alone. He consulted in another CMA case that was settled before he could conduct the comprehensive analysis that is reported here.

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competition.[2] Any competition-reducing constraints should be the focus of antitrust enforcement.

A Very Brief Primer on Calendar Marketing Agreements (CMAs)

A. The Form of CMAs in General

An agency relationship exists when any economic entity (principal) delegates authority to another economic entity (agent) whose decisions impact the principal's welfare. Principal-agency relationships are quite common. The dealings between a manufacturer and wholesale distributor or a distributor and retailer are principal-agent relationships. The possible principal-agent problems are often addressed through vertical restrictions determined through contractual negotiations in an attempt to replicate the outcome of an efficient vertically integrated firm. Vertical restraints are restrictive agreements or relationships imposed on buyers by sellers as conditions of sale, such as boycotts, exclusive dealings, resale price maintenance, territorial and customer limitations, tying arrangements, vertical integration, etc. While some of these vertical restraints are illegal, many are not. The costs of vertical restraints are largely market foreclosure excluding rivals from some or all of a market. The benefits are any ensuing efficiencies. In general, restraints that reduce or eliminate interbrand competition (among sellers of the same brand) are more likely to reduce the vigor of competition than those on interbrand competition (among sellers of different brands). The vertical restraints of interest in this paper are CMAs. These are first examined in general and then in the particular circumstances related to the empirical study.

Bowers, Glassberg, and Reisman (1988) call for further analysis of Calendar (or Cooperative) Marketing Agreements (CMAs) to see if competition is harmed by these exclusivity arrangements.[3] In this paper I analyze data from fourteen years involving the 1980s and 1990s to test this proposition. I worked as an expert economic

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[2] For instance, in a survey of U.S. economists published in 1984, approximately 83% of the respondents agreed that "the antitrust laws should be used vigorously to reduce monopoly power from its current level." See Frey, et al. (1984).

[3] I do not repeat the comprehensive survey of the literature presented in this seminal article.

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consultant in a settled antitrust case involving a confidential agreement that prevents identifying the products, firms, and geographic areas. Because of confidentiality restraint, researchers will be unable to replicate my results. Therefore, this study is definitive; but it is a step towards determining the merits of the alternative claims.

I am aware of only one other study that examined empirically CMAs involving any product and not necessarily the product examined in the present study. While the authors Tollison, Kaplan, and Higgins (1990) opine that a statistical (regression) analysis of volume and price using both time-series and cross-sectional data does not support an anticompetitive foreclosure hypotheses, no effort was made to determine a relevant geographic market in any of their calculations. Loosely speaking, a market involves all the firms selling adequately close substitutes.[4] Establishing the relevant product and geographic markets is a crucial issue in most antitrust cases.[5]

Marketers emphasize the four Ps of successful marketing: product, promotion, place, and price. A CMA provides a retailer with compensation (on a fixed or variable basis) from a manufacturer or wholesaler in exchange for preferential treatment in promotion, place on the shelf, and retail prices. The preferential treatment often includes exclusive instore and/or outstore advertising, a mandated amount and prime location of shelf space, and a retail price below comparable sizes of rival products (in extreme cases on all sizes). The duration of CMAs is for a specified time, usually from one to fifty-two weeks. These agreements are used with numerous grocery and drug products by small, medium, and large retailers. They are not found at all retail channels in all geographic areas, and terms do vary. They have the potential to lower prices to consumers through various cost reductions for retailers, but since they prohibit competitors from matching or beating the advertised retail price, they restrict competition by rivals; hence, alternative terms for CMAs are "lockouts" or "calendar buyouts."

C. The Form of CMAs in Particular

The product considered in this empirical investigation is sold

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[4] See, e.g., Carlton and Perloff (2000, p. 197, footnote 4).

[5] While market definition is not needed, as such, in a price-fixing case, it is necessary for calculating market shares.

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primarily in chain supermarkets, grocery stores, convenience stores, and drug stores. A manufacturer or distributor must be able to promote the sale of its products in these retail outlets to be a viable competitor. There are four principal means for a manufacturer or distributor to compete for sales in the primary retail outlets in the geographic market:

1. maintaining brand and product availability in the retail outlets;
2. inducing the retailers to promote the sale of its products through instore displays and shelf space;
3. reducing the price of its products to these retailers and encouraging them to offer such products for sale at a discount; and
4. inducing the retailers to advertise its products (typically at a price below the prevailing retail market price).

In practice, the most effective method for a distributor to compete for sales is to induce a primary retail outlet to have a feature, outstore advertisement that includes the distributor's products. A retailer running such a feature advertisement will normally offer the advertised product for sale at a retail price below the then prevailing price for that product and will also support the advertised product through instore displays and other point-of-purchase materials. The combined effect is to produce significantly higher sales than a single means used in isolation.

The marketing agreements in the CMAs usually include at least seven provisions that might unreasonably and illegally insulate the manufacturer from free and open competition with competing products. Among other things, CMAs have from time to time and with various accounts explicitly

1. required participating retailers to allocate a very high percent of their display space to the distributor's products;
2. required participating retailers to provide the distributor's products with the most valuable location and prohibited modification of the displays without consent;
3. required retailers to feature the distributors' products during the most significant sales weeks throughout the year;
4. required participating retailers to agree that no competitive product would be promoted, displayed or otherwise marketed at

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a reduced or special price during the advertising promotion period;
5. prohibited participating retailers from conducting any in-store promotions of any competing products;
6. fixed the minimum price for all competing products at prices selected by the distributor; and
7. required participating retailers to discontinue carrying competitive brands.

The lengths of these marketing programs vary, but the longer ones ranged from 32 to 52 weeks with modal periods of 26 weeks (6 months) or 52 weeks (12 months). The eight-month marketing programs specify coverage of the most important months, pay weeks and holidays in terms of this product's sales and may constitute a virtual exclusion from all competitive advertising opportunities. Some programs, e.g., the eight-month programs, provided for up to a five-fold escalation of payments to the participating retailer if the retailer agreed to the program for the entire year. Payments under the marketing programs were, moreover, withheld until the end of the year to ensure the retailer's compliance with the agreement.

C. Competitiveness Test

CMAs, theoretically, *could* be procompetitive, anticompetitive to competitively neutral. Some contend that the procompetitive aspects of CMAs are lower prices, higher quality, greater sales, enhanced good will, and elevated efficiency. The most likely antitrust areas that CMAs may anticompetively violate are *per se* vertical price fixing, group boycotts, essential facilities (shelf space), and monopoly and attempt to monopolize (Sherman Antitrust Act, Section 2).

One way to determine whether the anticompetitive or the procompetitive elements predominate is to answer the questions in the following four-part competitiveness test.[6]

1. Is there any harmful competitive impact on price, quality, or quantity because of the promotions?

[6] Another economist in this case, whom I do not name because of the confidentiality restraint, proposed a slightly different version of this test.

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2. Is there a legitimate commercial objective to the exclusivity?
   a. Is there a reduction or elimination of the free-rider problem?[7]
   b. Is the reduction in interbrand advertising desirable?
3. Are there less restrictive alternatives than exclusivity that would generate the same efficiencies?
4. Are rivals excluded or unable to match promotions and prices?

Using this paradigm I conclude the anticompetitive effects of CMAs exceed the procompetitive behavior. The rest of the paper presents the statistical evidence to support this claim.

III. Empirical Evidence

A. Market Definition

A market includes the buyers and sellers in the interacting geographic area that significantly influence the price, quality, and quantity of a specific product or group of products. An interesting aspect of this case was a rigorous implementation of the federal government's "hypothetical monopolist" test for market definition. In simple terms, under the *U.S. Department of Justice and Federal Trade Commission Horizontal Merger Guidelines* (1997, hereinafter *Guidelines*), a market is defined by determining what firms in what geographic area selling what products would have to belong to a hypothetical cartel to make it work (i.e., make a 5% or higher price increase profitable and optimal).[8] In essence, a *Guidelines* relevant antitrust market is one that could be successfully monopolized hypothetically. This test was implemented by comparing the optimal price-cost margins for the firms using the estimated direct-price elasticity of demand (i.e., the proportional impact on the quantity of a good demanded resulting from a proportional change in the price of that same good, all other things the same) to see if a 5% (or any modest) price increase would be profitable. Given the prevailing

[7] Free riding is when one economic agent benefits from the actions of another without paying for them. For example, since a manufacturer typically cannot perfectly observe the sales effects of retailers, those retailers may take advantage by too little advertising to save money and free ride on the manufacturer's reputation.

[8] See Kamerschen (1994).

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markup over variable costs or prices of 33% or higher, a hypothetical monopolist would find a price increase profitable if it faced a market-demand elasticity between 0 and -3.0. Since the actual calculated market-demand elasticity was less than -1.0, a hypothetical cartel could increase price profitably and satisfy the 5% test of constituting a relevant antitrust market. While not submitted to the trier of fact in this case, the relevant product and geographic markets determined this way were consistent with prior case law and economic theory.

B. Market Share

While the data were sketchy for part of the 14 years under investigation, the evidence did suggest that the one firm that utilized the CMAs most extensively did have a significant increase in market share to make it a dominant firm.[9] The second-largest firm, which basically used none of the most restrictive or exclusive CMAs, had a significant fall in market share. These market shares for the dominant firm are roughly twice as high as they are in other similar markets selling the same product, but where CMA activity is weaker or nonexistent. Moreover, prior to the CMAs, the second-largest firm had a sustained period of growth in profits, output, and market share that was arrested after the dominant firm started its extensive CMA strategy.

The general presumption by economists and the *Guidelines* (1997) is that the higher the level of the dominant firm's market share, *ceteris paribus*, the more likely are adverse competitive effects. But market-share data provide only a starting point for assessing competitive impacts. Market share is an indicator of market power only when sales reflect control over productive assets or production, and is not mitigated by excess capacity.[10] Other market factors, entry, and efficiencies must also be considered to assess if there is harm to competition and therefore to the public interest. The vigor

[9] Following the protective order, we cannot disclose the precise market shares. Some of this information is contained in proprietary reports done by a well-known independent research firm that, despite their frailties, are reasonable at least for showing trends in market shares.

[10] According to some, capacity may include the total capacity of firms in other geographical markets if they can and will divert supplies to this market, if it is unusually profitable.

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of competition is unlikely to be harmed if entry is so easy that market participants, either unilaterally or collectively, could make a price increase unprofitable. Entry will likely deter any anticompetitive effects if it is timely, likely, and sufficient in its magnitude, character, and scope.

Nonetheless, market share in general is the key criterion in judging whether an action is procompetitive, anticompetitive, or neutral. Commonly, actions are (1) procompetitive if done by a firm with less than a 10% market share; (2) anticompetitive if done by a firm with a market share over 50%; and (3) subject to a specific approval between these two ranges.[11] Dominant firms dealing with much smaller competitors can harm competition by damaging or eliminating small competitors if they choose to do so, provided they have large enough resources. A dominant firm may undertake a short-run money-losing action as part of a strategy toward larger profits in the future as a signal to rivals that they will be treated severely, thereby deterring entry and intimidating smaller rivals into passive behavior.

Firms can use selective or uniform devices. Selective actions include price discounts to specific buyers and product changes or promotional campaigns aimed at specific rivals. Because the competitive pressures on smaller firms are so pervasive and restrictive, selective actions are not equally available to them.

> Selective actions are anti-competitive when they are taken by a firm whose market share is high and (much) higher than the share of the target firm. Only the specific category of selective tactics done by dominant firms is anticompetitive. Restraining those actions will equalize competition, giving all firms access to comparable effective competitive tactics.[12]

Thus, behavior permissible for a smaller firm may not be for a larger firm. Baldwin (1987, p. 361) put it this way:

> The analogy has been drawn to an elephant in a chicken coop. There is no problem if the chickens want to dance, but the

[11] See De Jong and Shepherd (1986).

[12] De Jong and Shepherd (1986), pp. 47-48.

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> elephant should be denied such recreation. Similarly, a monopolist may have to accept constraints not imposed on others if its actions have untoward effects on competition. The analogy can be pushed further. Suppose the elephant knows that it cannot dance without crushing chickens, but it is indifferent to the chickens' fate. If it dances, it has evidenced *intent* to kill chickens since it knew the likely result of its action, even though such mayhem was not its motive. It is not clear how solicitous a monopolist should be of others, assuming its conduct is not deliberately predatory.

Or equally colorfully, Thomas Nixon Carver (1915, p. 332) put it this way:

> The larger the corporation, the greater is its power, either for good or for evil, and that makes it especially important that its power be under control. If I may use a homely illustration, I will take the common house cat, whose diminutive size makes her a safe inmate of our household in spite of her playful disposition and her liking for animal food. If, without the slightest change of character or disposition, she were suddenly enlarged to the dimensions of a tiger, we should at least want her to be muzzled and to have her claws trimmed, whereas if she were to assume the dimensions of a mastodon, I doubt if any of us would want to live in the same house with her. And it would be useless to argue that her nature had not changed, that she was just as amiable as ever, and no more carnivorous than she always had been. Nor would it convince us to be told that her productivity had increased and that she could now catch more mice in a minute than she formerly could in a week. We should be afraid lest, in a playful mood, she might set a paw upon us, to the detriment of our epidermis, or that in her large-scale mouse-catching she might not always discriminate between us and the mice.

A dominant firm is entitled to compete and to make use of whatever natural advantages it has acquired. But it cannot predate. Predatory behavior involves a strategy in the short run that weakens competing firms and/or discourages the entry of new firms to gain larger profits via higher prices in the long run than would have been prevailed. While cutting prices can be procompetitive, theoretical

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reasoning and empirical evidence suggests that predation to discipline or destroy smaller rivals is a plausible form of business conduct and that the Areeda-Turner (1975) marginal cost test may allow dominant firms too much power to bar economically desirable performance by smaller target rivals by various strategies.[13]

C. Market Power

Market power is the ability of a firm to raise or maintain profitability price above the opportunity costs of its resources. Market power is greater, the larger is the market share of the dominant firm, the smaller is the direct-price elasticity of market demand (i.e., more inelastic), and the smaller is the threat of entry, expansion, and the direct-price elasticity of supply (i.e., more inelastic).[14] Most economists view monopoly power as some variation of the basic Lerner Index (L) = (price-marginal cost)/price.

A regression analysis is a statistical procedure that assumes a direction of causation and attempts to hold other factors constant. For a demand curve, it is assumed that price drives or causes variations in quantities demanded. Calculating the demand curves for the dominant firm, adjusting for the prices of other firms, and using a catch-all time trend for all other factors, I found an inelastic direct-price elasticity of demand (i.e. it was less than one in absolute value).[15] The second-largest firm and the only other firm of any size had an elastic price elasticity of demand (i.e., it was greater than one in absolute value), calculated the same way. While any elasticity estimate has its caveats, this suggests that the leading firm had considerable monopoly power and could indeed raise prices successfully. In contrast, the direct-price elasticity of demand on the

[13] Both the static and dynamic versions of predation are reviewed in Kamerschen (1993).

[14] See Landes and Posner (1981). For instance, considerable excess capacity means considerable elasticity of supply and probably little monopoly power.

[15] When there is a correlation between successive errors, a pitfall known as serial correlation exists. Ordinary least-square estimates provide unbiased and consistent estimations, but are inefficient (i.e., the standard errors are inconsistent). I adjusted for any serial correlation by using generalized least-squares estimates (employing both the Cochrane-Orcutt algorithm and the Prais-Winsten procedure) and by using a maximum likelihood estimate called the Beach-MacKinnon procedure.

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national level, calculated by independent researchers for the identical product involved in this case, is decidedly elastic.

D. CMA Promotional Expenditures

An excessive amount of money was spent on CMAs. In fact, the amount spent was so high as to be irrational except on a cost predation basis to eliminate rivals. For instance, on the margin, the dominant firm spent on CMA promotional allowances roughly four times as much per unit of output sold as the only other firm in the market of any size. Put differently, the largest firm, on the margin, spent on CMA promotional outlays over three times what the price of its output sold for, whereas the only other significant firm spent less on CMAs than its products sold for.

Even on an average basis, the dominant firm spent more per unit sold on CMA promotional outlays than the second-largest firm. Since the dominant firm had several times more total unit sales than the distant second firm, it offered an enticing package for the retailer to capitulate in the short run and sign on for its CMA.

Finally, while profits in isolation are never a fail-safe method of determining monopoly power, when combined with other information, they are suggestive. While the average after-tax profit on sales for all sellers of these products nationally was positive, the rate of profit for the dominant firm in the critical years was negative, whereas the second-largest firm had a positive return approximately equal to the national average. This suggests profits may have been sacrificed for predation purposes, i.e., the low pricing was a deliberate act intended to eliminate existing rivals from the market.

E. A Brief Review of the Empirical Evidence

The competition-reducing effort of the dominant firm's CMA behavior harmed the vigor of competition. Many of the exclusivity restrictions by the dominant firm were competitively unnecessary and constrained the efforts of other firms to price their products favorably and to obtain access to competitive promotional opportunities.[16] These restrictive CMAs fixed prices, foreclosed competitive retailers

[16] A good source of references distinguishing competitive from exclusionary actions can be found in traditional industrial economics textbooks such as Waldman and Jensen (1998), Pepall, Richards and Norman (1999), and Carlton and Perloff (2000).

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from access to promotional opportunities, and otherwise restricted and restrained the ability to compete. Thus, the CMAs unreasonably restrained trade in the relevant market by containing restrictive exclusionary features that had little or no legitimate business justification. There was no evidence that the restraints generally resulted in significantly lower retail prices or higher-quality products to the final consumer. Moreover, any modest price decreases that did appear were likely to be ephemeral, lasting only until the rivals were eliminated. No credible or persuasive evidence was proffered that the CMAs reduced or eliminated a free-rider problem, if indeed any existed, for this nontechnical product. Fancy showrooms and knowledgeable salespeople are not required to inform customers about performance characteristics, warranty terms available, and price for this relatively simple and fungible product. Moreover, why should any reduction in interbrand advertising clutter through the exclusivity be any more important than any reduction in intrabrand advertising? Clearly, there are less restrictive alternatives than requiring exclusivity to sell this product. The dominant firm essentially engaged in expensive advertising arrangements that only it could afford. By escalating the amount spent on CMAs to levels vastly disproportionate to expected returns, the dominant firm effectively raised rivals' and its own costs and thereby raised entry barriers.[17]

IV. Summary and Conclusions

The business, economics, and legal literature contains little evidence on the economic impact of CMAs. This paper fills a small gap in our knowledge by conducting a statistical analysis of the effect of a CMA. While the paper deals with just one (settled) case, it is fairly typical of others that I have read about and/or been involved with. The statistical results indicate that exclusivity in the CMAs in question successfully harmed the vigor of competition in several ways, including cost predation (raising rivals' costs) and perhaps price predation (Areeda-Turner pricing below marginal costs rule). This conclusion is consistent with the fact the Department of Justice on August 10, 1993, withdrew the January 23, 1985 *Vertical Restraints*

[17] Raising rivals' costs is the noncooperative strategy of imposing additional costs on rivals without disadvantaging the imposing firm.

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Guidelines, which claimed that vertical restraints were generally procompetitive, as not being consistent with case law, mainstream economic theory, and factual analysis. The DOJ had specific problems with the almost complete discounting of the anticompetitive potential of vertical interbrand restraints in the 1985 *Guidelines* because of their alleged inevitable efficiency-enhancing effects (see, e.g., Kamerschen, 1999). I encourage others to apply my approach or one of their own to data for other CMAs. The accumulation of estimates over time and space will provide valuable information to businesspeople, the courts, and policymakers.

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BOOK REVIEW ARTICLE

Investment Intelligence from Insider Trading

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A recent book analyzing a large database about "insider trading" as reported to the Securities and Exchange Commission gives valuable insights into what can be learned, by investors and market analysts, from the buying and selling done by insiders. In this article, the book's results are reported, and commentary is added about the implications.

Key Words: Insider trading, market indicators for investors, H. Neyjats Seyhun, insiders' market behavior, statistical studies to predict securities market.

H. Neyjats Seyhun's *Investment Intelligence from Insider Trading* (MIT Press, 1998) reports on a massive study of the ability of statistics on insider trading from 1973 to 1994 to predict U.S. stock returns. It should be of interest to both stock market investors and financial economists.

The federal Securities Exchange Act of 1934 defines "insider" in two ways, one of which says insiders are high-level corporate executives, board members, or stockholders with over 10% ownership in the company. Insiders of this kind are forbidden from benefiting from any positions held for less than six months, and anyone in possession of material, non-public information (the other definition of "insider") is forbidden from trading in the firm's securities while having such information. To enforce these regulations, insiders of the first type are required to report their trading of the stocks for which they are insiders within 10 days of the month's close to the Securities and Exchange Commission, which then makes it public. Seyhun combines this data with other stock market data to also report on the

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profitability of investment rules involving such measures as price-earnings ratios, book-to-market ratios, take-overs, and trends in prices.

In Seyhun's study, insider trading in a particular company is first aggregated by months, with a month where the insiders bought more shares than they sold defined as a buying month, and one in which they sold more than they bought being defined as a selling month. This resulted in 144,884 buy months and 164,309 sell months, making this a large database. The surplus of selling is probably because the category of insider includes many who started firms (or got in early), and who afterwards tend to be net sellers. Since most insiders have the bulk of their wealth in their company, standard financial advice would be to diversify (which of course is legal). It should be noted that much insider trading is for such legitimate purposes as diversification and personal liquidity. It is also legal for insiders to make trades based on public information (if, at the time, they have no inside material information). Of course, given their concentrated position and incentive to keep up-to-date on their companies, insiders may be better able to evaluate and use the public information.

While it is illegal for insiders to trade on material, non-public information, it is legal to refrain from trading on the basis of material, non-public information, a point Seyhun does not make. To illustrate, consider an individual who has a substantial position in a company (perhaps from being a founder, or from having exercised many options). Having little invested outside of this company, he decides to diversify his investments by selling a portion every quarter, carefully timed so that he is not selling when he has material, non-public information (such as an unusually bad forthcoming earning announcement). This is a very sensible, rational policy most financial planners would approve of. Now suppose this insider receives non-public information that the company's earnings will be unusually good this quarter (or even that the company is negotiating to be taken over at a big premium). The insider is legally free to cancel his planned (but probably unrevealed) sales, making them later when the price is likely to be higher. Since he has used his insider information not to trade at a profit, but to avoid trading when he had material information, he has not engaged in illegal insider trading, although he has still benefited from his inside information.

Likewise, one who has a long-term stock accumulation plan is

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free to stop purchasing when aware of pending adverse news. An insider may also benefit from his willingness to believe public material information. An example I have used in class is a cookie manufacturer who has a way to bake fresh cookies with that home-baked flavor, and plans to build a business on providing good quality, and affordable cookies accompanied by good service. He is free to make all of this information public, and then act on it. Of course, given the number of firms that make claims like, "We provide high quality products at reasonable prices, and have a dedicated, hardworking labor force," it would not be surprising if many investors did not believe such claims. It would be legal for an insider to act on such publicly disclosed information. The insider's advantage may merely be that he knows when to believe the company's public relations or advertising claims.

Thus, it is plausible that insider trades would be more profitable than non-insider trades. The evidence on this point shows that insiders do, in fact, make unusually profitable decisions.

After months in which insiders were net buyers, the subsequent twelve-month return to the stock was 24.0%. After months when they were net sellers it was only 15.1%. Expressed relative to an equally weighted average of the New York Stock Exchange, the American Stock Exchange, and NASDAQ, insider purchases beat the market by 4.5% and sales trailed the market by 2.7%. Because of the upward market trend, stocks sold by insiders still went up appreciably, so a strategy of shorting the stocks that insiders were selling would be unprofitable. This occurs because non-institutional short sellers do not receive use of the proceeds of their stock sales, which remain as an interest- free deposit. However, if one owned stock that was the subject of insider selling, it does appear it would be profitable to sell it and invest elsewhere.

Since earlier studies have shown that following insiders is profitable, standard financial theory would suggest that investors would have learned to exploit this information. However, contrary to theory, there is no evidence that the profitability of following insiders has declined.

The price changes that follow insider transactions occur slowly, suggesting that the insiders are not exploiting upcoming corporate announcements (such as of quarterly earnings), but are investing on the basis of longer-term prospects for their companies. Abnormal

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price performance occurs for a full year following the insider trades.

The power of insider trading signals can be increased in various ways. Firms exhibiting insider purchases that were not preceded by sales over the past twelve months appreciated 30.5% during the subsequent 12 months. Similarly, firms exhibiting insider sales that were not preceded by any purchases appreciated by only 9.5%.

There are other ways to improve the predictive power of insider trading. Top executives would be expected to be the best informed, and their trades do turn out to be the most profitable. Large shareholders (non-management) are the insiders with the worst performance.

Insiders acting on valuable information would be expected to make larger trades. Indeed, trades exceeding 10,000 shares provide better signals than smaller trades.

Insider purchases are more profitable than sales. This is probably because much selling is done for reasons of diversification, or liquidity, while to add to an already large position is often a sign of confidence.

Following the insiders in small firms proves more profitable than following insiders in large firms. A large purchase by a top executive in a small firm outperforms the market index by 14.7%, while a large sale is associated with a 7.85% underperformance.

Part of the success of insider signals arises from a tendency for insiders to be buying more strongly before rises in the market than before market declines. In my opinion, this may be partially because insiders tend to be sellers after their stocks have risen (possibly because the need for diversification increases, and possibly because being richer, they desire a nicer lifestyle, and sell to finance that lifestyle). Thus, aggregate insider trading can be used as an aid to predicting overall market performance.

A case study shows that after the crash of 1987, insiders were heavy buyers (with 90% being buyers). In fact, October 20, 1987 had more insider buying than any other day during the study period. Given the insiders' knowledge of their companies, this buying suggests that the collapse was an irrational reaction to the stock price declines over the previous two weeks. If the decline had been due to difficult times being ahead for the economy, insiders with their good knowledge of their firms would not have been buying. As in other periods, the stocks bought by insiders during the two week postcrash period

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outperformed the market, and those sold by insiders underperformed the markets.

Statistical studies by various experts have found a number of rules that would have outperformed the market. This book tests many of these, generally confirming them. For instance, dividend yields are shown to be a predictor of future returns for the market as a whole, with periods of high yields being followed by high market returns. However, insider trading provides a better predictor of the aggregate market. Yet, firm-specific dividend yields were not found to be useful in picking individual stocks.

Dividend initiations are good news for investors, with stock prices increasing by 2.1% during the dividend initiation declaration month. Furthermore, stocks initiating dividends outperform the market index by 7.5% during the next twelve months. Some theoreticians have speculated that initiating dividends may indicate that a firm lacks profitable investment opportunities, (and is therefore returning the earnings to the stockholders, as theory indicates they should). However, if this were the case, insiders (knowing this to be true) would be net sellers of stock in companies initiating dividends. This was not found to be the case.

Previous studies have shown that companies reporting unexpectedly good earnings outperformed the market, even beyond the announcement period. Seyhun confirms this result. Firms in the top quintile for earnings surprise (approximated here by earnings increases) outperformed the market by 6.8% in the next year, while firms with the most disappointing earnings underperformed by 5.9%. If the three days immediately around the announcements were excluded, the net returns were plus 4.05% and minus 4.1%, large enough to be exploitable.

Even though there is a sharp price change around the time of unexpectedly good or poor earnings announcements, and insiders (who often know what the earnings will be) could benefit from trading against this knowledge, insiders do not appear to buy before good announcements, and sell before poor ones. This is shown by the absence of a correlation between insider trading in the three months prior to an announcement and the announcement itself. This applies even for large transactions by top executives. Insider success appears to come from exploiting their general knowledge of their companies (legal), rather than from taking advantage of knowledge of non-public

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information such as the next earnings announcement (illegal). Of course, there may be unreported insider trades that are exploiting knowledge of such factors as the next earnings announcement.

When insider trading and earnings surprises are combined, both seem to have an independent power to predict returns, although large trades by top executives appear to be better predictors.

Another predictor of stock returns is price-earnings ratios. This study, as earlier ones, finds they work. The highest price-earning ratio stocks had raw returns of 11.5%, while the lowest price-earnings ratio stocks had raw returns of 23.2%. When expressed relative to the average returns, the highest P/E stocks underperformed by 2.2% over the next year, while the lowest P/E stocks outperformed by 2.3%. Insiders are found to be net buyers of relatively low P/E stocks, and net sellers of relatively high P/E stocks. Relative P/E loses most of its predictive power once insider trading is controlled for.

Book-to-market ratios have previously been shown to help predict stock returns. This study found that the stocks with the highest relative book-to-market ratio outperformed the index by .8%, while those in the other three groups underperformed. The underperformance was 1.7% for those companies in the lowest book-to-market group. Insider trading and book-to- market ratios appear to exert independent effects on stock prices.

One circumstance where insiders might be expected to have a big advantage is during takeovers. Stock prices of takeover targets increase between 20% and 30% after the bid. Insiders often know of intended takeovers, or of the vulnerabilities of their firms to takeover attempts. They must be tempted to take advantage of this knowledge. About a fifth of the abnormal performances in takeovers occurs before the formal announcement, and some have suspected insider trading. However, this study finds that the pre-announcement drift appears to be independent of whether insiders were net buyers or sellers before the announcement. Likewise, insiders do not appear to buy more stock in firms subject to takeover attempts than in firms not subject to such attempts.

Insider trading proved unable to predict which firms would be successful bidders for other firms, but it was able to predict the returns from owning the bidding firms. Firms purchased by insiders outperform the market index by about 6%. Bidder firms whose top executives buy 10,000 shares or more outperform the index by about

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13%. The best performing bidder firms are those with large insider buying by top executives, a large pre-announcement run-up in stock price, and those that pay cash for their targets.

Does past performance predict future performance? This study suggests it does. For horizons up to one year, stock prices exhibit positive momentum. Past winners continue to outperform the market index, while past losers continue to underperform the market index. However, stock prices exhibit mean reversion over long horizons (up to five years). Past winners tend to underperform the market index, while the past losers outperform the market index. Both price history and insider trading appear to maintain their predictive powers when the other variable is controlled for.

Of course, for investors the key question is whether to follow insiders. Seyhun's last chapter discusses this question. One problem in following insiders is that we do not know when they act, but only when their actions are reported, which is usually a bit later. In particular, the median time between an insider trade and the reporting of the trade is 26 days (insiders are allowed till the tenth of the next calendar month to report). Three-quarters of trades are reported within 36 days. Unfortunately, no information is given on the delay from reporting and publication. However, since filings are now made electronically, the delay to publication should not be very long.

The good news is that since insider-trading decisions do not appear to be based on near term events, there is still potential to benefit by trading when the information becomes public. The stock price adjustment from the time of the trade until the time of the report is about .5%. When combined with a transaction cost estimated at 1%, it appears that it takes about three months to break even from following insiders (no allowance is made for taxes). The final chapter reports some of the gains from acting on insider trading on the date when it is reported (rather than on the actual trade date). Insider buys outperform the market by 2.0% and sells underperform by 3.3%. The profitability can be improved by such techniques as copying only the largest trades (over 10,000 shares traded), copying trades in smaller firms (best results are from companies with less than $25 million in capitalization), and following the trades of the top executives. For instance, the following of such executives' trades in the smallest companies has an average excess return of 7.4%, which

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appears worthwhile. While it would appear from other evidence in the book that profitability could be further improved by excluding trades that are very old when reported, and by following only the largest trades, the book does not report the results of combining these various techniques.

The book also considers risk by asking what the probability is of a loss (calculated relative to the average of all stocks) from mimicking insiders. This is surprisingly high. Even though the strategy of mimicking insiders in small firms appears highly profitable, it appears that 51.6% of trades will have a loss. There is an apparent paradox in a strategy that has an expected profit, also has an above-50% probability of loss. The explanation is that the returns in the stock market are skewed, with winners being more profitable than losers. Thus, those mimicking insiders would earn more from their successful transactions than they lose from their unsuccessful ones. This effect appears especially important for the smallest firms.

Calculations are offered of the probability of losses after various numbers of transactions. After 10 transactions in the smallest firms, the probability of loss is still about a third (33.5%), although it drops to less than one in a thousand for a thousand transactions.

Overall, this is an interesting book that should be useful to practicing investors, including those who are managing institutional money.

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Crime and Racial Profiling by U.S. Police: Is There an Empirical Basis?[1]

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The disparity between public sensibilities and empirical data in the United States has become so extreme that certain topics can no longer be investigated without bringing down cries of "racism". The U.S. police have been accused of discrimination because they investigate a higher percentage of black and hispanic minority suspects than white or Asians. The facts are that black U.S. citizens commit violent crimes at four to eight times the white rate. Hispanics commit violent crimes at about three times the white rate, and Asians only one half to three quarters the white rate. Blacks are as much more criminally violent than whites, as men are more violent than women. Of the approximately 1,700,000 interracial crimes of violence involving blacks and whites, 90 percent are committed by blacks against whites. Blacks are 50 times more likely than whites to commit individual acts of interracial violence. They are up to 250 times more likely than whites to engage in multiple-offender or group interracial violence. Fifty-six percent of violent crimes committed by blacks have white victims. Only two to three percent of violent crimes committed by whites have black victims.

Key Words: Racial profiling, police, law enforcement, crime, rape

Introduction

One of the strangest phenomena in contemporary criminology in the United States is the treatment of race and ethnicity. On the one hand there is a long history of academic attention to differences

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among racial and ethnic groups in involvement in various sorts of criminality (Hooton, 1939; Wilson & Herrnstein, 1985). On the other hand there today appears to be media and political pressure to avoid acknowledgement of the differences and possible consequences of the differences. Recently the New Jersey State Police Superintendent Col. Carl Williams was fired by Gov. Christie Whitman after he said in an interview that some minority groups were more likely to be involved in certain crimes (AP, 1999). The Governor is quoted as having said that Williams' comments were "inconsistent with our efforts to enhance public confidence in the State Police." The same article reports that Williams said he did not condone racial profiling, and has never condoned racial profiling, but at the same time he said "it is naïve to think race is not an issue" in some sorts of crime (AP, 1999). While Col. Williams claims not to condone racial profiling, the American Civil Liberties Union (ACLU) reported in June, 1999, that it was a widespread practice: "Citing police statistics, case studies from 23 states and media reports, the organization asserts that law-enforcement agencies have systematically targeted minority travelers for search... based on the belief that they are more likely than whites to commit crimes." (Drummond, 1999).

Although reports such as that of the ACLU which criticize the practice of racial profiling and criticize the "belief" that there may be race differences in criminality get wide media coverage, even being featured in national news magazines such as *Time*, (Drummond, 1999), other reports that deal with the actual incidence of crimes as related to race get short shrift. The nationally syndicated columnist Samuel Francis recently wrote:

> Black Americans commit 90 percent of the 1.7 million interracial crimes that occur in the United States every year and are more than 50 times more likely to commit violent crimes against whites than whites are against blacks. These facts were the main findings of a study released earlier this month by the New Century Foundation, but they're not the really big news.
>
> The big news is that the report, despite having been made available to virtually all newspapers and news outlets in the United States as well as to most major columnists and opinion writers, has been almost totally ignored by the national news media. The study was released on June 2 of this year. To date, all of one single news

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story about it has appeared." (Francis, 1999).

It does indeed seem strange for there to be a great disparity between media reports and the subsequent public apperception, and the actual data concerning one of the more important issues in criminology today.

The inconsistency between media reports and criminological data concerning race is not a new phenomenon. About a decade ago we reviewed the literature dealing with race differences in criminal behavior. Taylor (1992) largely reviewed media reports, while Whitney (1990) reviewed the scientific literature. A main finding of the review of media accounts of race and crime was the existence of a double standard with regard to reports of crime that mentioned race of perpetrator or race of victim, with white victimization of blacks receiving considerably more prominent coverage than black victimization of whites. (Taylor, 1992). The review of scientific literature was remarkable for both the quantity and consistency of prior literature (Whitney, 1990). Furthermore, the racial differences were accentuated when one considered more serious offenses and offenses that were variously described as victimful or predatory crimes. In a major review Ellis (1988) had reported that for serious victimful crimes, whenever comparisons had been made, blacks had *always* had higher rates than whites. Whenever blacks or whites had been compared with Orientals in roughly the same geographical areas, Orientals had always had the lowest serious victimful crime rates. The results were much less consistent for minor and/or victimless offenses. Overall, an order of blacks > whites > Orientals prevailed, with racial differences being larger the more serious and clearly victimful the offenses (Whitney, 1990).

In their classic *Crime and Human Nature*, Wilson and Herrnstein (1985:461) reviewed some literature on race and crime. They mentioned that blacks then constituted about one-eighth of the population of the United States and about one-half of arrestees for murder, rape, and robbery, and from one-fourth to one-third of arrestees for burglary, larceny, auto theft, and aggravated assault. Even with adjustments for other demographic variables, such as age and urban residence, in comparison to whites, blacks were overrepresented about four to one with regard to violent crimes and about three to one with regard to property crimes. Rushton (1985) pointed out

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that experience in England was consistent with that in the United States: blacks then constituted about 13 percent of the population of London and accounted for 50 percent of the crime. Indeed, violent crime by blacks had been mentioned as a factor contributing to the rearming of London's Metropolitan Police (Gould & Waldren, 1986). Blacks were similarly overrepresented with regard to white-collar crimes such as fraud and embezzlement. Blacks were underrepresented only with regard to offenses, such as securities violations, that usually required access to high-status occupations in which they were at that time underrepresented (Wilson & Herrnstein, 1985:462).

Whitney (1990) analyzed the race-specific arrest rates for various offenses that had been compiled for the years 1965 to 1986 (UCRP, 1988). For 19 categories listed in each of 22 years (418 comparisons), the rate for nonwhites *always* exceeded the rate for whites in the same year, typically by a factor of four to ten. For example, averaged across years, the nonwhite murder rate was nine times the white rate. Considerations of rate of crime combine prevalence (individuals who participate in crime) and incidence (recidivism, number of crimes by individuals who participate). Prevalence has been estimated through accumulation of first arrests across age (Blumstein & Graddy, 1981-1982; Blumstein & Cohen, 1987). Blumstein's results suggest that incidence is not strongly different among participants of different races. Rather, the race differences in crime rates are largely attributable to differences in the proportion of individuals of various races that participate in crime (Blumstein & Cohen, 1987). Among urban males the probability that by age 55 a black had been arrested for an FBI index crime was about 0.51; for whites it was 0.14 (Blumstein & Graddy, 1981-1982). Comparable age accumulated participation rates are not available for Orientals due primarily to their very low overall participation rates. Conversion of percentages to areas under a normal curve can be useful for comparing populations. These individual participation rates suggest about a one-standard deviation difference between male urban blacks and whites for criminal liability (Whitney, 1990). The apologist argument that arrest data are inappropriate for documentation of race differences in crime rates due to bias in arrests was thoroughly considered, and essentially debunked in Wilbank's 1987 book *The Myth of a Racist Criminal Justice System*. More recently Dilulio (1996) has also presented data concerning crime disparities among races, and the suggestion that the

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disparities are real in that they do not reflect differential law enforcement.

For regions within the United States, Whitney (1995) pointed out that the best predictor of local murder rate was simply the percent of the population that was black. Across all of the 170 cities in the United States that had a 1980 population of at least 100,000, the correlation between murder rate and percent of the population that was black was r = +0.69. With data from 1980 aggregated for the 50 states of the United States, the simple correlation between murder rate and percent of the population that was black was r = +0.77. More recently Hama (1999) used data from 1995 to calculate the correlation across the 50 states between percent of the population that is black and violent crime rate, where violent crime rate was an aggregate of murder, non-negligent manslaughter, rape, robbery, and aggravated assault. Hama (1999) reported the correlation to be r = +0.76.

Clearly the existing data briefly reviewed above are quite consistent. They are also somewhat limited in scope. There are two areas of criminality related to race that are not considered above, but which have become of interest in recent years. One is the question of hate crime categorization, and the other is that of interracial crime. In crimes where the perpetrator and the victim are of different races, are there any patterns in incidence, and what amount of interracial crime gets included in hate crime statistics? The analyses reported in the present paper were conducted to obtain information concerning the questions of interracial crime and hate crimes, as well as to update the investigation of incidence of crime as related to race in the United States.

Sources and Methods

The primary sources of data for consideration were governmental compilations of statistical information having to do with crime. The major sources are described here. One of the most important sources is the *National Crime Victimization Survey* (NCVS). Every year since 1972, the U.S. Department of Justice has carried out what is called the NCVS to ascertain the frequency of certain kinds of crimes. The NCVS sample is large, upwards of 80,000 people from about 50,000 households, and carefully stratified on the basis of census data to be representative of the nation as a whole. The NCVS

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is unique as a record of criminal victimization as reported directly by Americans, not filtered through police reports. It is the only significant nationwide measure of interracial crime. The NCVS is carried out annually, but the Department of Justice does not issue full reports every year; 1994 is the most recent year for complete data.

Ever since passage of the Hate Crime Statistics act of 1990, The FBI has been charged with collecting national statistics on criminal acts "motivated, in whole or in part, by bias." The law does not compel local law enforcement agencies to supply the FBI with this information, but many do. In 1997, the most recent year for which data are available, the FBI received hate crime information from 11,211 local agencies serving more than 83 percent of the United States population.

Uniform Crime Reports (UCR), published annually by the FBI, is the standard reference work for crime and crime rates in the United States. The UCR is a nationwide compilation of criminal offenses and arrest data, reported voluntarily by local law enforcement agencies. In the most recent UCR, which covers 1997, the FBI included reports from 17,000 law enforcement agencies, covering 95 percent of the country's population. The UCR is unquestionably the most comprehensive and authoritative report on crimes brought to the attention of the police. News stories about rising or falling crime rates are almost always based on the UCR.

Our primary methodology throughout this study is to calculate rates of various offenses as a function of victim and offender characteristics. Such calculations are straightforward, but can appear arcane to investigators experienced with other analytical approaches. Therefore we here provide a detailed example.

The most recent complete NCVS data are for the year 1994 (USDJ, 1997). In that report Table 42 lists categories of single offender interracial violent crimes. The various numbers at the top of the table represent totals calculated for single-offender violent crimes reported for that year. They are extrapolated from the actual crimes reported by the survey sample. We find that in 1994 6,830,360 whites were victims of violent crimes, and that 16.7 percent (1,140,670) reported that the perpetrator was black. Blacks were victims of 1,100,490 violent crimes, of which 12.3 percent (135,360) were committed by whites. Summing these figures for interracial crime (1,140,670 plus 135,360) we get a total of1,276,030 interracial crimes,

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Figure 1
Single Offender Black-on-White Crime

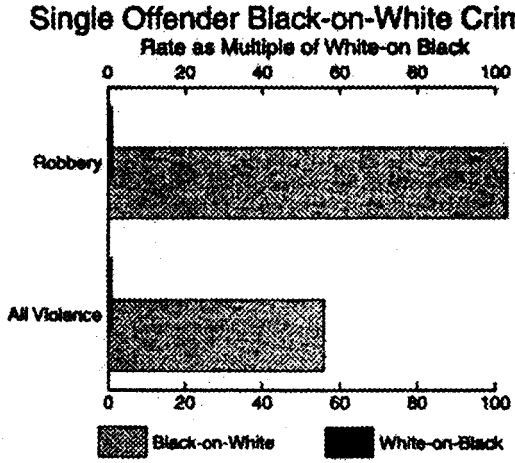
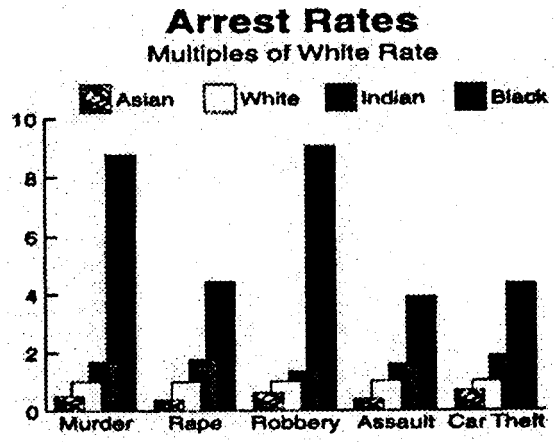


Figure 2
Arrest Rates Multiples of White Rate



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of which 1,140,670 or 89 percent were committed by blacks.

To get the *rates* at which blacks and whites commit interracial crime we divide the number of crimes by the population to get crimes per 100,000 population. The Census Bureau reports that the 1994 white and black populations were 216,413,000 and 32,653,000 respectively. Whites therefore committed acts of interracial violence at a rate of 62.55 per 100,000 while the black rate was 3,493.63 per 100,000, a figure that is 55.85 times the white rate. Put in the most straightforward terms, the average black was 56 times more likely to commit criminal violence against a white than was a white to commit criminal violence against a black. The multiple of 56 does *not* mean that blacks commit 56 times as much interracial violence as whites. What it means is that if whites commit interracial violence at a rate of 10 crimes per 100,000 whites, the rate for blacks is 560 per 100,000, or 56 times the white rate. This is the kind of calculation that is represented in most of the analyses in this report.

Results and Discussion

Calculations from the NCVS similar to those detailed above indicate that in the US the black rate for interracial robbery, or "mugging", was 103 times the white rate. The single-offender robbery rates, as well as the single-offender overall violence rates explicated above, are illustrated in Figure One.

Again using the NCVS (USDJ, 1997), we calculate the total number of crimes committed by perpetrators of each race, and the percentage that is committed against the other race. The 1,140,670 acts of violence committed by blacks against whites constitute 56.3 percent of all violent crimes committed by blacks. That is to say that when blacks commit violent crimes they target whites more than half the time or, put differently, there is more black-on-white crime than black-on-black crime. Similar calculations for whites show that of the 5,114,692 acts of criminal violence committed by whites, only 2.6 percent were directed at blacks. Although homicide is a violent crime, the NCVS does not include it because victims cannot be interviewed. The number of interracial homicides is rather small and does not substantially affect the percentages and ratios presented here.

It may be suggested that American blacks commit violence against whites because whites are more likely to have money and are therefore more promising robbery targets. However, of the 1,140,670

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black-on-white acts of single-perpetrator violence reported in 1994, only 173,374 were robberies. The remaining 84.8 percent were aggravated assaults, rapes, and simple assaults, which presumably were not motivated by profit. Rape, in particular, has nothing to do with the presumed wealth of the victim. More than 30,000 white women were raped by black men in 1994, while about 5,400 black women were raped by white men. The black interracial rape rate was thus 38 times the white rate.

The NCVS (USDJ, 1997) Table 48 contains interracial crime data for acts of violence committed by multiple offenders. By doing calculations as before, we determine how much group or "gang" violence (not in the sense of organized gangs) is interracial and how much is committed by blacks and by whites. Of the total of 490,266 acts of multiple-offender interracial violence, no fewer than 93.9 percent were committed by blacks against whites. Robbery, for which there is a monetary motive, accounted for fewer than one third of these crimes. The rest were gang assaults, including rapes, presumably for motives other than profit. Rates of group violence for each race can be calculated as before, and the difference between the races is stark. The black rate of overall interracial gang violence is 101.75 times the white rate; for robbery it is 277.31 times the white rate.

"Hate Crimes" in Perspective

In 1997, the most recent year for which data are available, there were a total of 9,861 "hate" offenses, of which 6,981 represented bias crimes based on race or ethnic origin (USDJ, 1999). The remainder were for reasons of religion, sexual orientation, or disability.

The FBI reports 8,474 suspected offenders whose race was known. Of that number, 5,344 were white and 1,629 were black. Their offenses – which included all categories of hate crime, not just racial bias - can, in turn, be divided into violent and nonviolent offenses, and in then calculating the rate of offense by race we find that blacks were 1.99 times more likely than whites to commit hate crimes in general and 2.24 times more likely to commit violent hate crimes.

As for cases of racial bias, there were 718 blacks charged with anti-white (as opposed to anti-homosexual, anti-Semitic, etc.) crimes and 2,336 whites charged with anti-black hate crimes. Although the number of whites charged was larger, the black rate per 100,000 was twice as high. A larger number of whites are charged with these

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crimes, but blacks are 2.0 times more likely to be be charged with similar offenses. This overrepresentation of blacks in hate crimes, not just in race bias cases but in all categories, runs counter to the common impression that whites are the prime perpetrators of hate crimes and are certainly more likely to commit them than blacks.

But perhaps of even greater significance is the relatively small number of bias crimes to begin with. Of the 6,981 offenses based on race or ethnicity, only 4,105 were violent, involving murder, rape, robbery, or assault. The rest included such offenses as vandalism and intimidation. These numbers are almost insignificant compared to the 1,766,000 interracial crimes of violence (combining both single- and multiple-offender offenses) reported in the NCVS.

Needless to say, part of this huge disparity in numbers is explained by the fact that the NCVS covers all crimes – whether reported to police or not - whereas for a crime to be included in the FBI's hate crime statistics it must first be reported to police and then be officially classified as a hate crime. No doubt there is some number of crimes never reported to the police that authorities would consider hate crimes if they knew about them.

However, how important is the distinction between interracial crimes that are officially designated as hate crimes and those that are not? For a crime to be considered a hate crime, the perpetrator must make his motive clear, usually by using racial slurs. It is not hard to imagine that of the 1,766,000 interracial crimes committed in 1994, some –perhaps even a great many - were "motivated in whole or in part, by bias" but the perpetrators did not express their motives.

Given the realities of race in the United States, would it be unreasonable for a person attacked by someone of a different race to wonder whether race had something to do with the attack, even if his assailant said nothing? Such suspicions are even more likely in the case of the 490,266 acts of group violence that crossed racial lines in 1994. What is the psychological effect on a victim set upon by a gang of people of a different race? A white woman gangraped by blacks or a black man cornered and beaten by whites can hardly help but think she/he was singled out at least in part because of race, even if the attackers used no racial slurs.

Many states have passed laws that increase penalties for people convicted of hate crimes. These laws recognize the harm done to society when people are attacked because of race or other character-

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istics. However, one might ask which does more damage to society: the few thousand violent acts officially labeled as hate crimes or the vastly more numerous interracial crimes of violence that go virtually unnoticed?

Hate Crimes Committed by Hispanics

The government's treatment of hate crimes is misleading in another, even more obvious way, in that the FBI reports hate crimes *against* Hispanics but not *by* Hispanics. The FBI's "Hate Crime Incident Report" includes Hispanics as a victim category but not as a perpetrator category. In effect this forces local law enforcement agencies to categorize most Hispanic offenders as "white" and the values for 1997 reflect this. The total number of hate crimes for that year – 9,861 – includes 636 crimes of antiHispanic bias, but not one of the 8,474 known offenders is "Hispanic" because the designation is not included on the FBI form.

If a Mexican is assaulted for reasons of ethnicity he is officially recorded as Hispanic. However, he becomes white if he commits a hate crime against a black. Even more absurdly, if a Mexican commits a hate crime against a white, both the victim and the perpetrator are reported as white. And, in fact, the 1997 FBI figures duly record 214 "white" offenders who committed antiwhite hate crimes (USDJ, 1999, p.12). The offenders were probably Hispanic, but if that is the case the report should say so. If some of the "whites" who are reported to have committed crimes against blacks are also Hispanic, the report should indicate that, too.

An examination of specific crimes shows that official reports can be misleading. Murder is the most serious of hate crimes, and the FBI lists five cases of racially motivated murder for 1997 – three "anti-black" and two "anti-white". The FBI report does not provide details about the perpetrators or the circumstances of the killings, but the local police departments that reported the crimes to the FBI have this information.

Two of the anti-black killings took place in the same town, a largely Hispanic suburb of Los Angeles called Hawaiian Gardens. Hawaiian Gardens has a history of black-Hispanic tension that is so bad many blacks have decided to leave. In one of the murders, a 24-year-old black man was beaten to death by 10 to 14 Hispanics who took turns smashing his head with a baseball bat. In the other, a

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Hispanic gang member challenged a 29-year-old black man's right to be in the neighborhood. A few minutes later he returned and shot the man in the chest. In both cases, the victims and killers did not know each other and the motivation appears to have been strictly racial (Russel & Mejia, 1998). These crimes are typical of what we think of as hate-crime murders, and because no Hispanics are identified as perpetrators in the FBI data, it is safe to assume the killers were classified as white.

The third anti-black killing took place in Anchorage, Alaska. According to press reports, a white man, 33-year-old Brett Maness, killed his neighbor, a 32-year-old black man, Delbert White, after a brief struggle (Sullivan, 1997). Mr. Maness, who was growing marijuana in his apartment and kept an arsenal of weapons, had been shooting a pellet gun at Mr. White's house, and the black man had come over to complain. Interestingly, a jury found that Mr. Maness killed Mr. White in self-defense, but convicted him of weapons and drug charges. The incident was designated a hate crime because Mr. Maness had brandished weapons and shouted racial slurs at Mr. White in the past (Porco, 1998).

The remaining two killings were classified as anti-white, but only one fits the usual conception of such crimes. Four white men were walking on a street in Palm Beach, FL, when a car came to a stop not far from them. Two black men got out with their hands behind their backs and one said "What are you crackers looking at?" One of the white men replied, "Not you, nigger," whereupon one of the blacks brought a gun from behind his back and fired several times, killing one white and wounding another. Attackers and victims did not know each other, and the criminal motivation appears to have been purely racial (Offense Report, 1997). The other anti-white killing involved a Texas businessman from India, who shot his Mexican daughter-in-law because his son had divorced an Indian wife to marry her. He was incensed that his son should marry anyone who was not Indian (Padilla, 1997). Presumably this crime should have been classified as anti-Hispanic rather than anti-white.

These five racially motivated murders reported for 1997 do not fit the popular image of hate crimes, namely, of whites brutalizing non-whites. In fact, only one perpetrator was "white" in the usually accepted sense. What was the nature of the thousands of other officially reported hate crimes? Without examining all 9,861 of them

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it is impossible to say.

It is clear, however, that the FBI report gives a false impression. It inflates the number of hate crimes committed by "whites" by calling Hispanics white. At the same time it gives the impression that Hispanics never commit hate crimes. The reason for gathering these data is to arrive at a better understanding of the extent of racial friction and violence in the United States. If statistics are to have any meaning they must reflect American reality, namely, that most Hispanics think of themselves as a separate group, distinct from non-Hispanic whites, and are perceived by others as a different group. It is impossible to understand or alleviate group friction without recognizing this. If the FBI wants to collect meaningful data, it must recognize Hispanics as a perpetrator category as well as a victim category.

Race and Crime

Different racial groups in the United States commit crimes at different rates. Most Americans have a sense that non-white neighborhoods are more dangerous than white neighborhoods – and they are correct. However, it is very unusual to find reliable information on just how much more dangerous some groups are than others.

The *Uniform Crime Reports* (UCR) from the FBI is the standard reference for crime and crime rates in the United States. In trying to determine crime rates for different racial groups, it is important to be aware of the differences between the UCR and the NCVS referenced above. The NCVS contains only one kind of information: crimes Americans say they have suffered. The UCR includes two different kinds of data: crimes reported to the police and arrests of perpetrators. Even for the same year and for the same crime, these three sets of numbers are different. The largest numbers are in the NCVS, because they include crimes not reported to the police. Somewhat smaller are the UCR figures on offenses reported to authorities, and smaller still are arrest figures, which represent offenses for which a suspect is arrested.

For example, in the 1997 NCVS Americans say they suffered a total of 1,883,000 cases of aggravated assault (USDJ, 1998a), but according to the UCR, only 1,022,000 were reported to the police. During that same year, there were only 535,000 arrests for aggravated assault (UCR, 1998). Racial data enter the UCR numbers only when

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an arrest is made, so it can be argued that racial comparisons should not be based on UCR data. Different racial groups may report crime to the police at different rates, some groups may be more successful at escaping arrest, and the police may discriminate between racial groups in their arrest efforts. However, although racial bias in arrests is frequently discussed, when investigated the data suggest that arrest rates actually track perpetrator rates (Dilulio, 1996; Wilbanks, 1987). Furthermore, there is an advantage to using UCR data because its racial categories are more detailed. Unlike the NCVS, which reports only "black", "white", and "other", the UCR compiles arrest data on "black", "white", "American Indian/Eskimo", and "Asian/Pacific Islander". These are the only national crime data that make these distinctions. Also, as will be explicated below, UCR arrest data can be compared to other data sources in ways that make it possible to treat Hispanics as a separate ethnic category.

Another good reason to use UCR arrest data (race of persons arrested) is that the racial proportions are actually quite close to those from NCVS survey data (race of perpetrator as reported by victims). For example, according to the UCR, 57 percent of people arrested for robbery in 1997 were black, as were 37 percent of those arrested for aggravated assault (UCR, 1998). According to NCVS data on single-offender crimes, 51 percent of robbers were reported by their victims to be black as were 30 percent of those who committed aggravated assault (USDJ, 1997). Since there is a greater overrepresentation by blacks in NCVS-reported multiple offender crimes, combining the two sets of figures brings the racial proportions in the NCVS figures extremely close to the racial proportions in UCR arrest numbers. Put differently, police are arresting criminals of different races in very close to the same proportions as Americans say they are victimized by people of those races.

By this measure, who is committing crime in America? In Figure Two are presented arrest rates as multiples of the white arrest rate for various crimes.

The white rate is always set to one, so if the black rate is three, for example, it means that blacks are arrested at three times the white rate. Once again, it does not mean that three times as many blacks as whites were arrested; it means that if 100 of every 100,000 whites were arrested for a crime, 300 of every 100,000 blacks were arrested for the same crime. The data show a consistent pattern: Blacks are

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arrested at dramatically higher rates than other racial groups. American Indians and Eskimos (hereinafter "Indians") are arrested at slightly higher rates than whites, and Asians/Pacific Islanders (hereinafter "Asians") are arrested at consistently lower rates. The popular conception of crime in America is correct: rates are much higher among blacks than among whites or other groups.

To return to the view that arrest data reflect police bias rather than genuine group differences in crime rates, police actually have very little discretion in whom they arrest for violent crimes. Except for murder victims, most people can tell the police the race of an assailant. If a victim says she was mugged by a white man, the police cannot very well arrest a black man even if they want to. For this reason, many people accept that police have little discretion in whom they arrest for violent crime, but still believe drug laws are enforced unfairly against minorities. Drug offenses are beyond the scope of this investigation, but here, too, there is independent evidence that arrest rates reflect differences in criminal behavior, not selective law enforcement. The U.S. Department of Health and Human Services keeps records by race of drug-related emergency room admissions. It reports that blacks are admitted at 6.67 times the non-Hispanic white rate for heroin and morphine, and no less than 10.49 times the non-Hispanic white rate for cocaine (the rates for Hispanics are 2.82 and 2.35 times the white rates; information is not provided for American Indians or Asians) (USDJ, 1998b). There is only one plausible explanation for these rates: Blacks are much more likely to be using drugs in the first place. Finally, if racist white police were unfairly arresting non-whites we would expect arrest rates for Asians to be higher than those for whites. Instead, they are lower for almost every kind of crime.

Measuring Hispanic Crime Rates

Any study of crime rates in America is complicated by the inconsistent treatment of Hispanics by different government agencies. For example, the Census Bureau's official estimate for the 1997 population of the United States divides all 268 million Americans into four racial groups: white, black, Indian and Eskimo, and Asian and Pacific Islander. The bureau then explains that among these 268 million people there are 29 million Hispanics who "can be of any race". However, it also counts *non-Hispanic* whites, *non-Hispanic*

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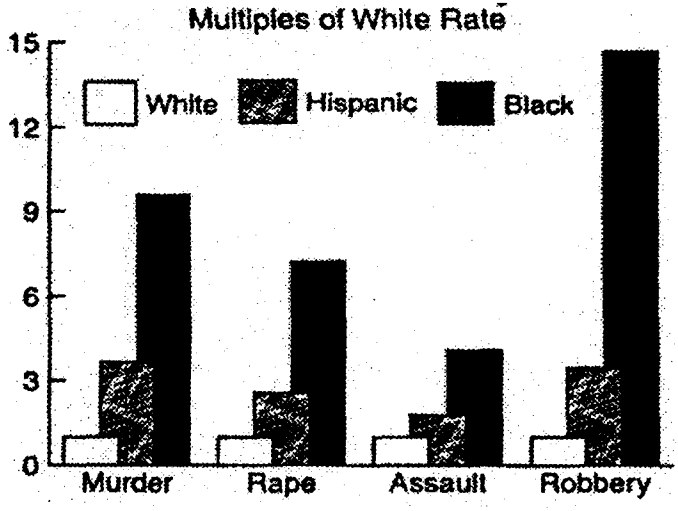
Figure 3
California Arrests by Race



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blacks, Indians, etc. Thus we find that although according to the strictly racial classification, there are 221 million whites in the United States, there are only 195 million *non-Hispanic* whites. When American Hispanics, approximately half of whom are Mexican, are apportioned to the four racial categories, the Census Bureau considers 91 percent to be white, six percent black, one percent American Indian, and two percent Asian.

The treatment of Hispanics can make for odd results. For example, according to the 1990 census, the 3,485,000 people of Los Angeles were 52.9 percent white, 13.9 percent black, 0.4 percent American Indian, and 22.9 percent Asian – which adds up to 100 percent. This makes the city appear to be majority white. However, Los Angeles was also 39.3 percent Hispanic, and if we subtract the 91 percent of them who are classified as whites, the non-Hispanic white population drops to only 16.6 percent.

What does this mean for crime statistics? Because the UCR figures do not treat Hispanics as a separate category, almost all the Hispanics arrested in the United States go into official records as "white". This is contrary to the usual cultural understanding of the term, which is not normally thought to include most Mexicans and Latinos.

If violent crime rates for Hispanics are different from those of non-Hispanic whites, putting Hispanics in the "white" category distorts the results. This is not as serious as in the case of hate crimes, in which the crime itself has to do with the very personal characteristics that are being omitted from the records, but there is no legitimate reason not to make ethnic and racial comparisons as accurate as possible. The UCR tabulates separate data on American Indians and Eskimos – who are less than one percent of the population – but it ignores Hispanics, who are 12 percent of the population.

Some data-gathering agencies do treat Hispanic and nonHispanic whites separately. The California Department of Justice, which records all arrests within the state, consistently makes this distinction (although it lumps Asians and American Indians into the "other" category) (Calif., 1998). In conjunction with Census Bureau population figures for Hispanics, non-Hispanic whites, and non-Hispanic blacks living in California in 1997, we can calculate the arrest rates for the different groups for various crimes. In Figure Three these rates are once again presented as multiples of the white rate. As is

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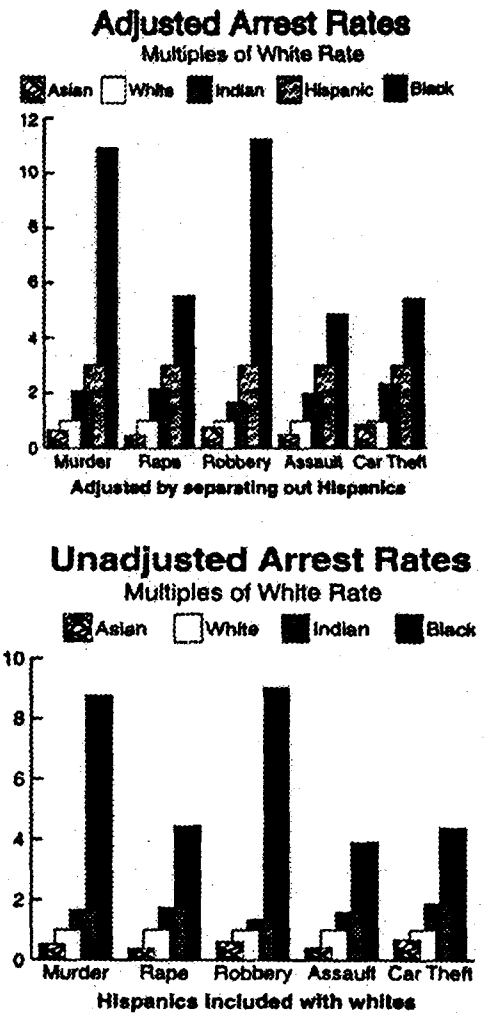
Figure 4
Arrest Rates with Hispanics Separated/Included with whites



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the case with national UCR data, blacks are arrested at much higher rates than whites, but Hispanics are also arrested at considerably higher rates.

The different rates at which Hispanics and non-Hispanic whites are held in prisons and jails are another indicator of the differences in crime rates between the two groups. Although the UCR does not treat Hispanics as a separate category for arrest purposes, some government reports on the prison population do consider them separately. For example, the Department of Justice has calculated incarceration rates per 100,000 population for non-Hispanic whites (193), Hispanics (688), and non-Hispanic blacks (1,571) (USDJ, 1998b). Expressed as multiples of the white rate, the Hispanic rate is 3.56 and black rate is 8.14. These multiples are close to those from the California arrest data, and justify the conclusion that Hispanics are roughly three times more likely than non-Hispanic whites to be arrested for various crimes. By accepting this assumption, we can use the following formula to incorporate this differential into the UCR racial data on white arrests so as to calculate more accurate arrest rates for nonHispanic whites:

> R (Number of non-Hispanic whites) + 3R (Number of white Hispanics) = Actual Number of Arrests.

Here, R is the arrest rate for non-Hispanic whites and 3R is the arrest rate for Hispanics who are categorized as white when they are arrested. Calculations of this sort show that if Hispanics are broken out as a separate ethnic category with an arrest rate three times the non-Hispanic rate, the rate for non-Hispanic whites decreases by 19.5 percent. In Figure Four are shown arrest rates (as multiples of the white arrest rate) adjusted for the Hispanic reduction. Due to lack of precise information, the multiple for Hispanics is set to three times the white rate for all crimes even though there is certain to be some variation in the multiples for different types of crimes. A graph of unadjusted arrest rates is also presented for purposes of comparison. Because the evidence from national incarceration rates and California arrest rates suggests that Hispanics commit violent crimes at some multiple of the white rate, the adjusted graph in Figure Four is probably a more accurate indicator of group differences. Both graphs are on the same scale and show the extent to which separating out

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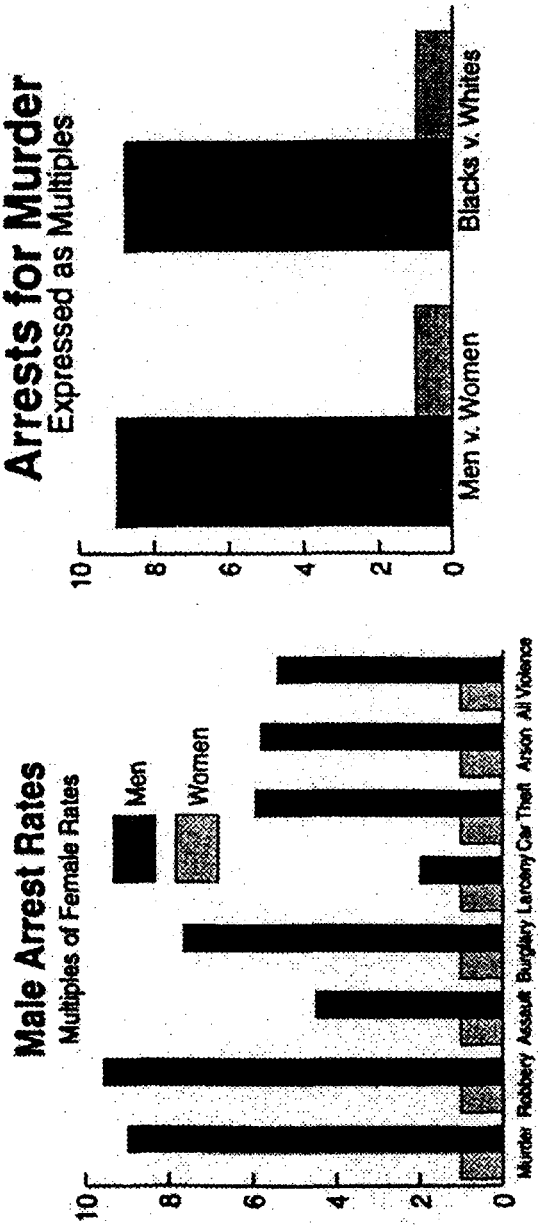
Figure 5
Sex Differences and Race Differences



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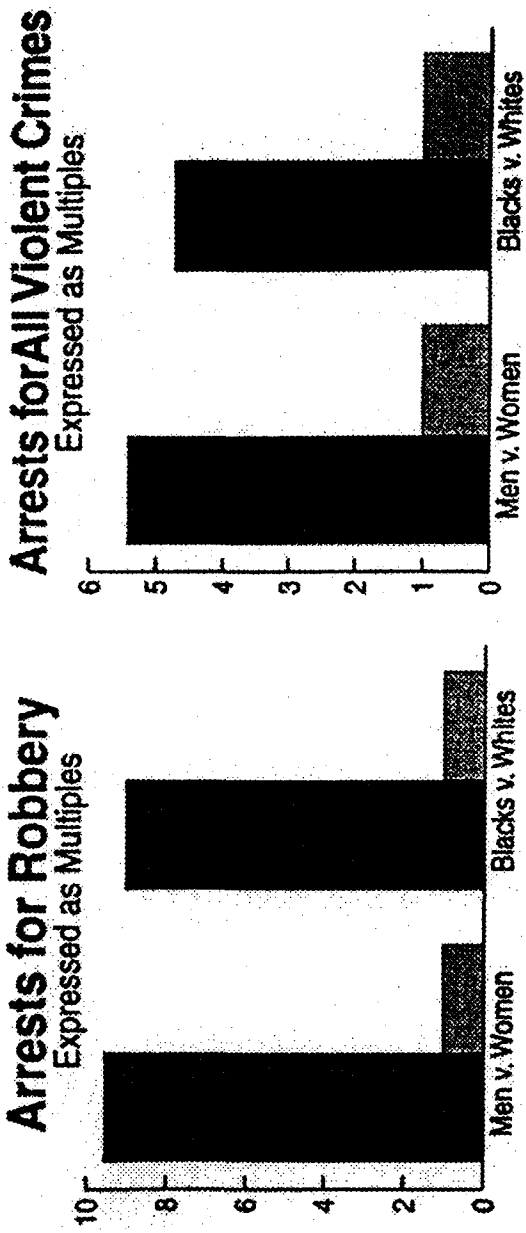

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Hispanics raises arrests rates for other groups when compared to whites.

It should be noted here that the NCVS survey data on interracial crime also includes most Hispanics in the "white" category. It is therefore impossible to know how many of the "whites" who committed violent crimes against blacks were actually Hispanic or how many of the "whites" against whom blacks committed violent crimes were Hispanic. If Hispanics commit violent crimes against blacks at a higher rate than whites - and judging from their higher arrest and incarceration rates for violent offenses this seems likely, the NCVS report also inflates the crime rates of non-Hispanic whites.

Men vs Women, Blacks vs. Whites

Many people resist the idea that different racial groups have substantially different rates of violent crime. However, there are several group differences in crime rates that virtually everyone accepts and, indeed, takes for granted. Men in their late teens and 20s, for example, are much more prone to violence that men beyond their 50s. When young men are arrested more frequently for violent offenses, no one doubts that it is because they commit more violent crime. Likewise, virtually no one disputes the reason for higher arrest rates for men than for women: Men commit more violent crime than women (Wilson & Herrnstein, 1985). This is the case for racial groups as well: Asians are arrested at lower rates than whites because they commit fewer crimes; blacks and Hispanics are arrested at higher rates because they commit more crimes (Levin, 1997; Rushton, 1995; Whitney, 1990).

When it comes to violent crime, blacks are approximately as much more likely to be arrested than whites, as men are more likely to be arrested than women. The multiples of black v. white arrest rates are very close to the multiples of male v. female arrest rates, suggesting that blacks are as much more dangerous than whites as men are more dangerous than women.

The first panel in Figure Five has arrest rates for men as multiples of arrest rates for women for the same crimes (UCR, 1998). The differentials are roughly similar to those between blacks and whites. The next two panels compare arrest rates for murder and robbery, and illustrate that the black/white arrest multiple is almost as great as the male/female multiple. The fourth panel of Figure Five

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makes the same comparison for arrest rates for all violent crimes (these figures have *not* been adjusted for the fact that Hispanics are included with whites. As we have shown, adjustment would lower the white arrest rate by nearly 20 percent, and would make the black/white multiple greater than the male/female multiples).

What does this mean? Although most people have no idea what the arrest rate multiples may be, they have an intuitive understanding that men are more violent and dangerous than women. If someone in unfamiliar circumstances is approached by a group of strange men she feels more uneasy than if she is approached by an otherwise similar group of strange women. No one would suggest that this differential uneasiness is "prejudice". It is common sense, born out by the objective reality that men are more dangerous than women.

Likewise, there is now much controversy about so-called "racial profiling" by the police, that is, the practice of questioning blacks in suspicious circumstances in disproportionate numbers in the expectation that they are more likely than people of other races to be criminals. The philosophical, legal and rational case for racial profiling has been elaborated by the philosopher Michael Levin (Levin, 1997). "Racial" profiling is just as rational and productive as "age" or "sex" profiling. Police would be wasting their time if they stopped and questioned as many little old ladies as they do young black men. It is the job of the police to catch criminals, and they know from experience who is likely to be an offender. Americans who do not question the wisdom of police officers who notice a possible suspect's age and sex should not be surprised to learn those officers also notice race.

Conclusions

Two things can be said about most of the information in this investigation: It is easily discovered but little known. Every year, the FBI issues its report on hate crimes, and distributes thousands of copies to scholars and the media. Why does no one find it odd that hundreds of whites are reportedly committing hate crimes against whites? And why does no one question the wisdom of calling someone white when he is a perpetrator but Hispanic when he is a victim?

For some years there has been an extended national discussion about the prevalence of black-on-black crime – and for good reason.

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Blacks suffer from considerably more violent crime than do Americans of other races. And yet, amid this national outcry over the extent of black-on-black crime, there appears to be little concern about the fact that there is actually more black-on-white crime. Nor does there seem to be much interest in the fact that blacks are 50 to 200 times more likely than whites to commit interracial crimes of violence. Differences as great as this are seldom found in comparative studies of group behavior, and they cry out for causal investigation and explanation. It is probably safe to say that if the races were reversed, and gangs of whites were attacking blacks at merely four or five times the rate at which blacks were attacking whites the country would consider this a national crisis that required urgent attention.

Everyone knows that young people are more dangerous than old people, and that men are more dangerous than women. We adjust our behavior accordingly and do not apologize for doing so. Why then must we pretend that statistics regarding race differences in violent crime, are to be ignored? It is surely understandable that police should take these statistics into account when searching for suspects, and that they may wish to take more precautions when entering some neighborhoods than others.

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